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IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1939.

No. 482.

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EDWARD SHELDON and MARGARET AYER BARNES,  
*Petitioners,*

against

METRO-GOLDWYN PICTURES CORPORATION, METRO-  
GOLDWYN-MAYER DISTRIBUTING CORPORATION,  
LOEW'S, INC., and CULVER EXPORT CORPORATION,  
*Respondents.*

ON WRIT OF CERTIORARI TO THE CIRCUIT COURT OF  
APPEALS FOR THE SECOND CIRCUIT.

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***BRIEF FOR RESPONDENTS.***

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# MICRO CARD

TRADE

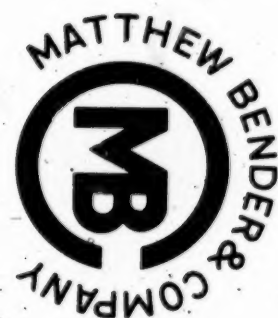
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**BRIEF FOR RESPONDENTS.**

*Opinions Below.*

The opinion of the District Court on the motion to confirm the Special Master's report is reported in 26 F. Supp. 134. The opinion of the Circuit Court of Appeals on the cross-appeals taken from the judgment entered on the Special Master's report is reported in 106 F. (2d) 45.

The earlier opinion of the District Court directing a dismissal of the complaint is reported in 7 F. Supp. 837. The opinion of the Circuit Court of Appeals finding infringement and reversing the decree of dismissal is reported in 81 F. (2d) 49. Both of these latter opinions are relevant herein as to the nature and extent of the respondents' infringement.

## ***Constitution and Statutes Involved.***

Article 1, Section 8, Clause 8, of the Constitution of the United States and relevant portions of the Copyright Statute (17 U. S. C. A.) Section 25(h), and of the Patent Statute (35 U. S. C. A.) Section 70, are set out in the Appendix (pp. 83-4).

## ***History of the Case.***

The petitioners herein are also referred to as "the plaintiffs", and the respondents are also referred to as "the defendants".

In passing upon the issue of infringement, Judge Woolsey upon the trial had before him the four works, namely: (1) The manuscript of petitioners' play "Dishonored Lady" (P. R. 237-494; Defts.' Ex. R-3; R. 640), called the Play; (2) the continuity of respondents' motion picture "Letty Lynton" (P. R. 495-622; Defts.' Ex. R-4; R. 640), called the Picture; (3) the record of the trial of Madeleine Smith in Scotland in 1857 for the murder of her lover (contained in a volume published in 1927 as one of the series, "Notable British Trials"), called the Trial; and (4) the novel "Letty Lynton" by Mrs. Belloc Lowndes, motion picture rights of which had been

NOTE: The record filed with the petition herein contains the first opinion of the Circuit Court of Appeals, the interlocutory decree of July 29, 1936, entered upon its mandate, the proceedings before the Special Master, and all subsequent proceedings, constituting the so-called "Accounting Record", which will be referred to herein as "Record" (abbreviated "R").

With the certiorari petition of respondents, denied on December 4, 1939, No. 505, there was filed the record containing all proceedings prior to the accounting. By consent order (R. 1248) this prior record, as well as certain exhibits described in such order, may be handed up upon the argument and referred to in briefs with the same force and effect as if incorporated as a part of this record, which will be referred to herein as "Prior Record" (abbreviated "P. R.").



acquired by the respondents, called the Novel. The Trial (Defts.' Ex. R-2; R. 640) and the Novel (Defts.' Ex. R-5; R. 641) are contained in separate volumes which were not printed as part of the record, but by consent order may be referred to on argument or in briefs (R. 1248).

The District Judge in the early decision, made after fifteen months' deliberation, in comparing these four works, made a finding as to the "basic plot—the common denominator" derivable from all four works (7 F. Supp. 837, 840). After pointing out that this basic plot was "the principal obstacle across the plaintiffs' path to a decree (7 F. Supp. 842), he held that the defendants "did not copy anything therein or take anything therefrom (the Play) which was protected by copyright and that as a matter of law, therefore, they did not infringe the plaintiffs' copyright".

Upon appeal from this decision, the Circuit Court of Appeals found that although there was no taking of any dialogue, the Picture followed certain of the dramatic sequences or "variants" of the Play, but that the former differed in many respects from the Play, saying (81 F. (2d) 49, at p. 56):

" \* \* \* much of the picture owes nothing to the play; some of it is plainly drawn from the novel; "

And even as to the basic plot, the Court said (p. 54):

" \* \* \* much of the play was borrowed from the story of Madeleine Smith, and the plaintiffs' originality is necessarily limited to the variants they introduced. "

In weighing the amount of the award and in considering the effect to be given to the finding of "deliberate plagiarism" on which the plaintiffs lay such

stress, it must be remembered that the District Court by its decision completely absolved the defendants from any wrongdoing, and that the Circuit Court of Appeals in reversing designated the infringement only as one "*pro tanto*", saying (81 F. (2d) at p. 54):

"With so many sources before them they might quite honestly forget what they took; nobody knows the origin of his inventions; memory and fancy merge even in adults. Yet unconscious plagiarism is actionable quite as much as deliberate."

Plaintiffs in their brief have stated (at p. 3) that "Both the Master and the District Court refused to apportion." The Master's report (R. 957) shows that he considered the decree appointing him merely as a peremptory direction "to ascertain and report the amount of complainants' damages herein and the amount of such gains and profits of the defendants", etc. In this he was in error, for, as pointed out in *Lawrence-Williams Co. v. Societe Enfants, Etc.* (C. C. A. 6), 52 F. (2d) 774, 777, such decrees follow a "customary formula", and as was stated in *Dam v. Kirk La Shelle Co.* (C. C. A. 2), 175 Fed. 902, 908, "Questions as to the amount of damages or profits ordinarily come up for determination only after the accounting".

The District Judge later on the motion to confirm the Master's report assigned as his reason for not making an actual apportionment of the profits (which he believed that justice required) the fact that he considered himself bound by the decision in *Dam v. Kirk La Shelle Co.*, *supra*,

"\* \* \* even though I believe it runs counter to the course later followed by that Court in appor-

tioning profits in patent infringement cases and to the arguments therein expressed" (R. 1198), and later added:

"In my opinion it is punitive and unjust to award all the net profits of the motion picture 'Letty Lynton' to the complainants in this case" (R. 1200).

The District Judge further stated (R. 1202):

"An allowance to complainants of 25% of the net profits, as restated, or about \$133,000 would be such a sum as could be justly fixed as a limit beyond which complainants would be receiving profits in no way attributable to the use of their play in the production of the picture. Sir James Barrie received 7% of the gross receipts from the motion picture based on 'Peter Pan'. For that he assigned the motion picture rights to his famous play and the right to use the name as the title of the picture. The gross receipts in the case at bar from the picture 'Letty Lynton' were \$1,655,269.15 of which 8% would be about \$132,500. In my opinion the testimony before the special master would justify a finding in this case that the profits these defendants made from their use of complainants' play 'Dishonored Lady' did not exceed 25% of the net profits from the picture, as hereinafter fixed, or, if a royalty basis should be used, 8% of the gross receipts. It requires no expert testimony to show that the use of complainants' play 'Dishonored Lady' did not contribute the entire 100% of the net profits realized from the picture 'Letty Lynton'. Yet that is what this judgment gives the complainants."

The failure of the District Court actually to make such an apportionment has been widely criticized.

48 Yale L. J., 1279 (May 1939); 52 Harv. L. R., 688 (February 1939); 39 Columbia L. R., 869 (May 1939); 8 Fordham L. R., 263 (May 1939).

The Circuit Court of Appeals, after considering the pertinent authorities, including the prior decision of the Court in *Dun v. Kirk La Shelle Co.*, *supra*, expressed the opinion that "A court is justified in basing its decrees upon practices common in other human affairs" and that it could "no longer accept the doctrine of *Dun v. Kirk La Shelle Company*, *supra*; that by no hook or crook can an infringer be relieved of so manifestly unjust a result" (R. 1263).

Accordingly, upon the basis of expert testimony introduced by the defendants, which the Court designated as "the best opinion of the calling", it found that an allowance to the plaintiffs of one-fifth of the net profits was an award "which by no possibility shall be too small", and "which would favor the plaintiffs in every reasonable chance of error" (R. 1264-6). The rationale of the decision was expressed as follows:

\* \* \* \* But we are resolved to avoid the one certainly unjust course of giving the plaintiffs everything, because the defendants cannot with certainty compute their own share" (R. 1265).

Notwithstanding the fact that Judge L. Hand in his former opinion had apparently referred to the infringement as "unconscious plagiarism" due to the fact that "memory and fancy merge even in adults", in this second opinion he stated:

"No new light has come and we now hold that the borrowing was a deliberate plagiarism" (R. 1265).

No explanation is given as to where this "new light" was to come from. The Special Master was not authorized, either by the former opinion of the Court or by the accounting decree, to receive additional evidence on the question of infringement; and even if such additional evidence had been offered before him, we are confident that it would not have been received, since the Master sought throughout the accounting to limit the evidence strictly to matters of accounting. The defendants' writers, whose depositions were offered at the trial, had all testified frankly that they had seen the plaintiffs' play and one of them had testified to having read the script, but all of them had denied that they copied from such script (P. R. 92, 110, 118-9, 128, 134-5, 140-1). None of these writers was called in the accounting proceedings for the reasons stated.

Even in the face of this designation of the infringement as deliberate plagiarism, the Court considered as manifestly unjust an award of any amount of profits greater than one-fifth thereof.

The award which the petitioners herein seek is one approximating \$600,000, or twenty times more than the \$30,000 which they asked for the motion picture rights of the Play. The award of the lower Court herein sought to be reviewed is one which awards them approximately \$115,000, which with interest and costs (including counsel fee), materially exceeds five times what plaintiffs asked for their play.

### **Facts.**

The plaintiffs' play was based upon the Madeleine Smith trial, a famous criminal trial of its generation which took place in Scotland in 1857. The plaintiffs in the foreword to their play made public acknowledg-



ment of this fact (R. 640, 631, 632). "This was the story which plaintiffs used to build their play" (R. 1293).

During 1930 and 1931, Metro-Goldwyn-Mayer Corporation openly negotiated for the motion picture rights in the play and in the spring of 1931, a written contract was entered into covering such rights, by the terms of which the plaintiffs agreed to sell, and Metro-Goldwyn-Mayer Corporation agreed to purchase, said rights for \$30,000, "contingent upon their (plaintiffs') being able to secure the approval of the Hays Office\* of their use of this play for picture purposes" (P. R. 789; Defts'. Ex. R-1, R. 635).

The District Court found that both parties had made "*bona fide*" efforts to have this ban of the Motion Picture Producers & Distributors of America, Inc. (also known as the Hays Office) removed (P. R. 892), but such efforts were *unsuccessful* because of the obscenity of the play (P. R. 27, 49, 65; R. 664-6). The final refusal by the Hays Office to lift this ban was announced on June 1, 1931, and further efforts to acquire these motion picture rights were then abandoned (P. R. 26, 27, 76; R. 638).

Late in 1928, or early in 1929, Mrs. Belloc Lowndes wrote a novel in England entitled "Letty Lynton", also based upon the Madeleine Smith trial. It was conceded by stipulation upon the trial that this novel was completed in the latter part of the year 1929, that Mrs. Lowndes never saw or heard of the play until after her novel was completed and that this novel was entirely her own work (P. R. 816).

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\* This work of the "Hays Office" is carried on pursuant to agreement between the Motion Picture Producers and Distributors of America, Inc., and the Author's League of America, to maintain the moral and artistic standards of motion picture production (P. R. 59-63, 805-813). One or both of petitioners are affiliated with the Author's League (P. R. 62-63).

Negotiations for the purchase of the motion picture rights in the Novel began in July, 1931, and extended over a period of some months (P. R. 145). Mrs. Lowndes' representative first took up the matter with Mr. Thalberg in London in July, 1931, and later resumed negotiations with him in Los Angeles in September, 1931. The actual contract for the purchase of these rights was not executed until December 4, 1931 (P. R. 826; Defts.' Ex. R-6; R. 641), but, as appears from the exhibit itself, the contract, which was prepared in this country, was executed in London, obviously some time after the negotiations had been concluded.

It was from the novel that the defendants' writers were instructed to prepare the continuity of the picture (P. R. 77; R. 677).

\$30,000 was the price at which Mrs. Barnes "hoped very much we would make the sale" (R. 635). Plaintiffs' agent for the sale of these rights testified (R. 668): "It (the \$30,000) was the only actual price we had from anybody".

Plaintiffs allege (their brief, p. 5) that the "novel 'Letty Lynton' served as a screen" and refer to the opinions of both lower courts as their authority for this statement. This charge is without foundation in fact. Nowhere in these opinions or elsewhere does such a statement find support.

### ***Summary of Argument.***

The decision of the court below is in accord with the copyright statute, with the copyright decisions, and with equitable principles applicable to the apportionment of profits. The equitable remedy of accounting for profits both in copyright and patent cases is one which equity itself created and over



which it has complete control to the end of awarding to the patent or copyright owner *compensation* in the form of the *gains* of the infringer, in substitution for the remedy at law under which damages, or defendants' *losses*, are awarded.

The statutes recognizing the remedy, both copyright and patent, were intended to be merely declaratory of the pre-existing principles applied by equity to accountings for profits. These statutes have neither extended nor limited the powers theretofore exercised by courts of equity in connection with such accountings.

The principles applicable in copyright cases are not different from those applicable in the patent cases which hold that in awarding gains or profits courts of equity will award to the patent owner only such gains or profits as are attributable, on the principle of cause and effect, to the use made of the patent by the infringer.

Section 25(b) of the Copyright Act of 1909 was not intended to give to the copyright proprietor any greater measure of relief than that theretofore accorded to the patent owner.

The patent cases, as well as the copyright cases, show that equity has adopted flexible principles under which it may separate those gains attributable to the use of the patent from those due to elements superadded by the infringer. This result has been reached in the patent cases either by actual apportionment or by awarding to the patent owner a "reasonable royalty" in cases where either the profits or the damages are not susceptible of calculation with reasonable certainty. The "reasonable royalty" rule was adopted by the courts long prior to the incorporation of such rule in the statutes by the 1922 amendment of Section 70 of the Patent Law (Appendix, pp. 83-4).

There are in the record no less than five distinct

lines of proof which furnished to the Circuit Court of Appeals adequate bases for an award to the plaintiffs of a much smaller proportion of the net profits than that which that Court awarded to them.

Moreover, the award of the court below was sustainable as a finding of "such damages as to the court shall appear to be just" under the so-called "in lieu" provision of Section 25(b) of the Copyright Act of 1909.

Equity acts solely for the purpose of awarding *compensation* to the plaintiff and not of inflicting *punishment* upon the defendant. When the characterization of the infringement by the lower Court as "deliberate plagiarism" is understood, viewed in the light of the history of the case, including the decision of the trial Court completely absolving the defendants from any wrong-doing, it will be seen that under no circumstances does the situation here call for the application of punitive principles. Such circumstances, however, may justify the requirement which was actually imposed upon the defendants by the lower Court, viz., that of proving beyond "any reasonable chance of error" the amount of the *gains* made by them which was not attributable to the use of any portion of the copyrighted material (Points I to III).

The allowance by the court below as an item of General Studio Overhead of the sum of \$922,141.09 paid to Messrs. Mayer, Rubin and Thalberg was a proper one. These payments were made under a contract whereby such individuals received for their services, in addition to fixed salaries, a compensation measured by 20% of the profits. This contract had been in force since 1924 and the evidence showed no grounds for questioning the good faith of this arrangement. It was not a matter for the courts to question

the *wisdom* or *providence* thereof, although in this regard also, the arrangement was beyond question (Point IV).

### POINT I.

The decision of the Circuit Court of Appeals is in accord with the copyright statute, with the decisions of this Court in *Callaghan v. Myers* and *Belford v. Scribner* and with equitable principles applicable to apportionment of profits.

The position taken by the plaintiffs is that in every case where infringement of copyright is found, whatever the extent of such infringement, quantitatively or qualitatively, the Court *must* award to the copyright owner *all* the profits made by the defendant from the entire enterprise in connection with which the infringement occurs. This argument, by the very nature of things, obviously ignores realities and leads only to rank injustice.

### *History of Equitable Remedy Independent of Statute.*

Before considering the statute, we shall trace the history of equity's "peculiar remedy" of an accounting of profits under which, by the application of ordinary principles of cause and effect, the copyright or patent owner has always been permitted to recover *all the profits made from the infringement*, that is, all the gain or unjust enrichment attributable to the use made by the infringer of the copyrighted work or the patented article. This history will show that any provisions in relation to this remedy which have been incorporated in statutes have been merely declaratory of pre-existing law and have not extended

or limited the general powers of a court of equity to do right and justice.

There was no statutory provision for such an award in copyright cases until the Copyright Act of 1909 though, as in patent cases, profits in a proper case were awarded long prior to 1909. *Stevens v. Gladding*, 17 How. 447 (1855); *Callaghan v. Myers*, 128 U. S. 617 (1888); *Belford v. Scribner*, 144 U. S. 488 (1892).

There was no statutory provision for such an award in patent cases until the Act of July 8, 1870 (55th Section, which became Section 4921 of the Revised Statutes, 1873), although an accounting for profits had theretofore been a well recognized remedy in equity in patent as well as in copyright cases.

Mr. Justice Matthews in his opinion in *Root v. Railway Co.*, 105 U. S. 189 (1881), reviews the history of patent legislation and of the procedure for an accounting in equity for infringement. He refers (p. 194) to the case of *Livingston v. Woodworth*, 15 How. 546 (decided in 1853), as the one wherein for the first time the question arose "*as to the rule for computing the profits of an infringer upon a decree for such an account.*"\*

In the *Livingston* case (p. 559), Mr. Justice Daniel laid down the following fundamental principles which should ever govern a court of equity either as to an award by equity of profits in excess of actual profits or as to any award of a punitive nature in the form of profits:

"We are aware of no rule which converts a court of equity into an instrument for the punish-

\* Unless otherwise indicated, italics throughout this brief have been supplied by respondents.

ment of simple torts; \* \* \*. If the appellees \* \* \* had sustained an injury to their legal rights, the courts of law were open to them for redress, and in these courts they might, according to a practice, which, however doubtful, in point of essential right, is now too inveterate to be called in question, have claimed, not compensation merely, but *vengeance* for such injury as they could show that they had sustained. But before a tribunal which refuses to listen even to any, save those whose acts and motives are perfectly fair and liberal, they cannot be permitted to contravene the highest and most benignant principle of the being and constitution of that tribunal. There they will be allowed to claim that which, *ex aequo et bono*, is theirs, and nothing beyond this."

In all such proceedings for an account of profits, the fact that an equity court may always mold its decrees in accordance with right and justice has never been lost sight of, as illustrated by the following:

"\* \* \* the adjustment of these profits is subject to all the equitable considerations which are necessary to do complete justice between the parties, \* \* \*." (*Packet Co. v. Sickles*, 19 Wall. 611, 617.) "The jurisdiction of equity is adequate to give the proper remedy, whatever phase the case may assume; \* \* \*." (*Rubber Co. v. Goodyear*, 9 Wall. 788; 804.) "\* \* \* The subject, as a whole, is surrounded with many difficulties, which the courts have not yet succeeded in overcoming." (*Elizabeth v. Pavement Co.*, 97 U. S. 126, 138.) "Equity will control its peculiar remedy of an account of profits according to its own sense of justice." (*Haas v. Feist*, 234 Fed. 105, 108.)



Mr. Justice Matthews in the *Root* case, after his reference to the *Livingston* case, shows that the effect of Section 4921 of the Revised Statutes was not to change in any manner the powers of an equity court in respect to profits, but only to enlarge the powers of such court so as to permit the award of *damages* in connection with an award of profits, where the profits were not adequate compensation to the injured party. Under Section 4921 (35 U. S. C. A., Sec. 70)

"the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages \* \* \*"

This section remains in effect with the addition by amendment in 1922, of an alternative provision, embodying equitable principles theretofore established by the cases, which permits the court to award "a reasonable sum as profits or general damages" where "damages or profits are not susceptible of calculation and determination with reasonable certainty." (Appendix, pp. 83-4).

This section, excluding such amendment, represents the statutory law applicable to patents at the time of the passage in 1909 of the Copyright Act. Apportionments of profits under the patent statute had been permitted by equity in proper cases long prior to 1909 when the Copyright Statute was passed. See cases cited in *Westinghouse Co. v. Wagner Mfg. Co.*, 225 U. S. 604, 614-5 (1912).

***Section 25(b) of the Copyright Act of 1909 Is Merely Declaratory of Pre-existing, Recognized Principles.***

For the first time, in 1909, there was incorporated in the statutes applicable to copyrights an express provision relating to the pre-existing remedy of an

accounting of profits which, as we have already stated, long antedated the 1909 Act.

The Copyright Act of 1909 is entitled, "An Act to Amend and Consolidate the Acts Respecting Copyright". Section 25(b) of the Act, in providing that an infringer shall pay to the copyright proprietor "all the profits which the infringer shall have made from such infringement", was merely declaratory of the existing law applicable to patents as well as to copyrights. It was not intended to give the copyright owner any greater measure of relief than that accorded to patent owners; nor was it intended to extend or limit the principles theretofore applied in equity's peculiar remedy of an account of profits. The section plainly states that the copyright owner is entitled only to those profits "made from such infringement". This would appear clearly to contemplate an apportionment between those profits made from the infringement and those profits of the infringer, attributable to causes other than the infringement.

If there were room for doubt as to the meaning of the statutory provision, an examination of the House and Senate Committees' Report on the Act of 1909 and of statements made by one of the co-authors of the Act at the legislative hearings held before the Joint Committee of the House and the Senate would resolve all uncertainties by showing that the framers of the Act had no intention of laying down a different rule as to copyrights from that which was applicable to patents.

The House Committee in its report\* on the bill

\* House Report No. 2222, 60th Congress, 2nd Sess., incorporated in the corresponding Senate Report No. 1108.



which became the Copyright Act of 1909 said of Section 25(b):

"The provision that the copyright proprietor may have such damages as well as the profits which the infringer may have made is substantially the same provision found in Section 4921 of the Revised Statutes relating to remedies for the infringement of patents. The courts have usually construed that to mean that the owner of the patent might have one or the other, whichever was the greater. As such a provision was found both in the trade-mark and patent laws, the committee felt that it might be properly included in the copyright laws."

No reference whatever is made in the above report to the use in the Act of the word "all" on which the plaintiffs lay much stress. In fact, nowhere in the Committee reports or in any hearings before the Committee was it suggested that Section 25(b) gave a larger measure of recovery of profits in the case of copyright infringement than in the case of patent infringement.

In the hearings before the Joint Committee of the House and Senate of December, 1906, (p. 174),\* Mr. Arthur Stuart, who was the spokesman for those who with him drafted the bill, in referring to Section 25(b), (Section 23(b) of the Act then under consideration), said:

"\* \* \* an attempt was made to put into this clause all of the remedies of the existing law and all of the remedies which have already been enacted by Congress with reference to patents, as well as trade-marks. \* \* \* this clause has been drawn as a consolidation of all the remedies which

\* Copyright hearings, December 7-11, 1906.



had existed before with reference to copyrights, patents and trade-marks wherever there is no inconsistency."

After comparing the proposed Act with the language above quoted from the Patent Act (*supra*, p. 15), Mr. Stewart went on to say (p. 175):

"\* \* \* the attempt has been made in this Act to reproduce identically the same meaning in the language which has been used. Possibly it might have been better to have used exactly the same words."

In *Jewell-Lau-Salle Realty Co. v. Buck*, 283 U. S. 202 (1931), this Court in interpreting the same Section of the Copyright Act, resorted to the same Report referred to above, saying that (p. 206):

"\* \* \* the primary purpose of Section 25 was to incorporate in one section all of the civil remedies theretofore given, including statutory damages where actual proof was lacking."

The Court overruled the contention that certain provisions of Section 25 were limited to particular infringements by saying:

"The history of the section as revealed in the extended hearings which preceded the Act of 1909, makes the contrary clear."

This Court also relied upon this Report in *Westermann Co. v. Dispatch Co.*, 249 U. S. 100, at page 109 and in *Washingtonian Publishing Co. v. Pearson* (1939), 306 U. S. 30, at page 36.

It is clear then, both in respect of patent and copyright infringement, that *damages* are awarded solely upon *compensatory* principles, measured by what the plaintiff has lost; and that *profits* are awarded solely

upon compensatory principles measured by the profits ascribable, on the principle of cause and effect, to the infringement. (*Dobson v. Hartford Carpet Co.*, 114 U. S. 439, 445-446.) As the Court said in that case where a rug had infringed a design patent:

“\* \* \* to attribute in law the entire profit to the pattern, to the exclusion of the other merits, unless it is shown by evidence, as a fact, that the profit ought to be so attributed, not only violates the statutory rules of ‘actual damages’ and of ‘profits to be accounted for’, but confounds all distinctions between cause and effect.”

See also

*Reed v. Lawrence* (C. C. Mich. 1886); 29 Fed. 915, 921.

The application of this simple principle of cause and effect is in no manner changed by the oft-repeated and much misunderstood reference to an infringer as a constructive trustee. When equity awarded *defendant's gains*, and not *plaintiff's losses* as at law, it intended to adopt a purely quantitative yard-stick and not to adopt any principles of substantive law affecting an infringer, who, after all, is a simple tortfeasor.

Mr. Justice Matthews in the *Root* case (105 U. S., at p. 214), referring to the fallacy of regarding the defendant infringer as a *trustee*, which he attributed to the loose language therefore used in some of the cases, said:

“All that was meant in the opinions referred to, was to declare according to what rule of computation and measurement the compensation of a complainant would be ascertained in a court of equity, which having acquired jurisdiction upon

some equitable grounds to grant relief, would retain the cause for the sake of administering an entire remedy and complete justice, rather than send him to a court of law for redress in a second action. The rule adopted was that which the court, in fact, applies in cases of trustees who have committed breaches of trust by an unlawful use of the trust property for their own advantage; that is to require them to refund the amount of profit which they have *actually realized*. This rule was adopted, not for the purpose of acquiring jurisdiction, but, in cases where having jurisdiction to grant equitable relief, *the court was not permitted by the principles and practice in equity, to award damages in the sense in which the law gives them, but a substitute for damages, at the election of the complainant, for the purpose of preventing multiplicity of suits.*"

Mr. Justice Gray, in *Tilghman v. Proctor* (1888), 125 U. S. 136 (at 148), approves this language of Mr. Justice Matthews and challenges "the theory that the infringer is converted into a trustee for the owner of the patent", and says: "it is more strictly accurate to say that a court of equity, \* \* \* will not send the plaintiff to a court of law to recover damages, but will itself administer full relief, by awarding, as an equivalent or a substitute for legal damages, a compensation computed and measured by the same rule that courts of equity apply to the case of a trustee who has wrongfully used the trust property for his own advantage."

In applying this measure, the court was regarding a defendant's profits as an entirety, *i. e.* profits indisputably ascribable solely to the infringement. In other words, the defendant was to be treated as if he were a trustee only to the extent of the profits indisputably ascribable to the infringement, and not as to profits not so ascribable.

Thus, in the comparatively recent case of *Larson v. Wrigley* (1928), 277 U. S. 97, page 99, Mr. Justice Holmes said:

*"To call the infringer an agent or trustee is not to state a fact but merely to indicate a mode of approach and an imperfect analogy by which the wrongdoer will be made to hand over the proceeds of his wrong."*

There is no reason to believe that Section 25(b) repealed or ignored the law of cause and effect or was intended to give the copyright owner any greater relief than that accorded under pre-existing principles applicable to accountings in equity. If the plaintiffs have any claim to that portion of the profits due to the defendants' contributions and not to the plaintiffs, they must find support for such a claim outside the statute.

### ***General Principles of Apportionment.***

The fact that the defendant, by his wrongful act, has tortiously confused his property with that of the plaintiff, or his profits with those of the plaintiff, does not call for the utter disregard of cause and effect. True, the defendant should not be permitted to profit from his wrong, but this merely requires an inquiry into the proportion of the defendant's profits properly attributable to his wrong. To compel the defendant to surrender the entire fund or property in which the plaintiff's fund or property is intermingled can only be justified as a method for punishing a defendant for deliberately destroying evidence as to the value of the plaintiff's property which he wrongfully appropriated. All the authorities are in unison that even a conscious wrongdoer can avoid such punishment by offering satisfactory proof upon

which the plaintiff's proportionate recovery can be based. Forfeiture of the entire mingled fund is never a rule of substantive law. Thus the Restatement on Restitution, in setting forth the principles applicable where funds of the plaintiff have been mingled with funds of the wrongdoer, contains no provision for forfeiture of the entire fund. Section 209, entitled "Mingling With Funds of Wrongdoer" provides:

"Where a person wrongfully mingles money of another with money of his own, the other is entitled to obtain reimbursement out of the fund."

In Comment b of Section 210, entitled "Effect of Acquisition of Other Property With Mingled Funds", it is stated:

"Where the wrongdoer is a conscious wrongdoer, the other is entitled at his option to a *share* of the property acquired with the mingled fund *in such proportion as his money bore to the whole amount of the fund.*"

This principle is clearly shown by Illustration No. 4:

"4. A wrongfully takes \$1000 of B's money, and with this money and with \$2000 of his own money A purchases shares of stock which he later sells for \$6000. B is entitled to receive one-third of the proceeds. If the shares are sold for \$1500, B is entitled to an equitable lien upon the proceeds for \$1000."

These rules also apply to the wrongful mingling of things other than money, Restatement on Restitution, Section 214. To the same general effect, see Cooley on Torts (4th Ed.), p. 74; 5 R. C. L., p. 1050; Goodeve's Modern Law of Personal Property (1937), p. 100.

In other words, the plaintiffs in the instant case are, on general principles applicable to the wrongful mingling of money or property, only entitled to such



proportion of the profits as the value of their copyrighted material which the defendants took bore to the total value of the picture "Letty Lynton". There can be no fundamental distinction between a wrongful mingling or intermixture caused by infringement and a wrongful mingling caused by any other tortious act, except, perhaps, in so far as the determination of the method of apportionment is concerned. The applicable methods of apportionment are most clearly demonstrated in the cases involving infringement of patents.

### ***Principles of Apportionment Applicable to Patent Cases.***

As will be apparent from the opinion of the Court below, there is a marked dearth of copyright cases involving an award of profits as against an infringer. The facts in the *Callaghan* (1888) and *Belford* (1892) cases were of such a nature as to render wholly ineffectual an assertion of any valid claim for apportionment. However, we submit that it is fairly inferable from the opinions in those cases that an apportionment might have been made if the facts there had permitted the defendants to show a proper basis therefor. Since the rendition of those decisions, there have been marked developments in the law applicable to apportionment of profits in patent cases. This seems to make it desirable that we discuss these developments in that cognate branch of the law before taking up the copyright decisions.

The leading authority on the subject of apportionment in patent cases is *Westinghouse Mfg. Co. v. Wagner E. and M. Co.* (1912), 225 U.S. 604. This case makes it apparent that the question of apportionment of profits resolves itself into a question of the burden of proof. Under certain circumstances out-



lined by the Court, the burden of proof is on the plaintiff to apportion the profits under penalty of failing to recover any profits whatsoever, and in other situations as outlined by the Court, the burden of apportioning the profits shifts to the defendant. In the instant case the defendants have voluntarily assumed this burden and consequently the question of burden of proof is not involved. Where the entire profits of the defendant are not factually due to the plaintiff's patent and where the defendant is able to prove this, then, as the *Westinghouse* case and all subsequent patent cases clearly show, the plaintiff is entitled only to his just proportion of the profits. Thus, in the *Westinghouse* case, the Court, speaking of the situation where the infringed patent is used "in combination with valuable improvements made, or other patents", said (p. 615):

"In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains."

Accordingly the patent owner is entitled to all the profits of the infringer only (1) where the infringer has sold or used the patented article without any superadded elements and (2) where the patent though used in combination with "old elements", gives the entire marketable value to the combination. The question of apportionment in the instant case should, therefore, depend upon the relative contributions made by the defendants and the plaintiffs to the "marketable" value of the infringing picture. *Crosby Valve Co. v. Safety Valve Co.* (1891), 141 U. S. 441, 454; *Garretson v. Clark* (1884), 111 U. S. 120; *Elizabeth v. Pateman Co.* (1878), 97 U. S. 126, 141.

Shortly after the *Westinghouse* case this Court again considered the problem of apportioning

profits in the patent case of *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.* (1915), 235 U. S. 641, 646-7. The fundamental rule was expressed as follows:

"In so far as the profits from the infringing sales were attributable to the patented improvements they belonged to the plaintiff, and in so far as they were due to other parts or features they belonged to the defendants.

\* \* \* \* \*

"Of course, the result to be accomplished is a rational separation of the net profits so that neither party may have what rightfully belongs to the other, and it is important that the accounting be so conducted as to secure this result, if it be reasonably possible."

"The owner of the patent is limited; therefore, to an allocable share of the profits where, as in *Columbia Machine Corp. v. Adrianne Works* (C. C. A. 2, 1935), 79 F. (2d) 16, 18, "it would be absurd to say that the (invention) gave the entire value to the bottle capper or made it the article which the defendant's customers wanted", or where, as in *Egry Register Co. v. Standard Register Co.* (C. C. A. 6, 1928), 23 F. (2d) 438, 440, "It cannot be assumed that all defendant's sales were due to the presence of the patented features, and hence that all the profits were caused thereby", since there was "no evidence that the sales made by defendant were particularly due to its incorporation in its device of the patented combination", although "doubtless, as in every such case, the patented improvement contributed to many of the sales, and was the moving cause in some of them".

It will be admitted that the courts have had difficulties in the practical application of the above simple

principles of apportionment. Speaking of this difficulty of allocating profits as between contributing elements, Judge Learned Hand in *Cincinnati Car Co. v. N.Y. R. T. Corp.* (C. C. A. 2, 1933), 66 F. (2d) 592, 593, says:

"\* \* \* the question is in its nature unanswerable" and "it is generally impossible to allocate quantitatively the shares of the old and the new \* \* \*".

Judge Hand, speaking of the tendency to construe the *Westinghouse* case, where the infringing device was in effect the same as the patented device, as treating the infringer as "subject to the severe standard imposed upon malversators", and therefore liable for all profits, says "the character of the tort ought not really to have such sanguinary results". He then pays tribute to the reasonable royalty rule adopted in the *Dowagiac* case as a satisfactory solution which "abandons the appearance of rationalizing the irrational" (p. 593).

When Judge Hand was sitting in the District Court (*Page Machine Co. v. Dow, Jones & Co.* (1916), 238 Fed. 369, 376), he made just such an apportionment to avoid "grotesque injustice". There he allocated one-sixth of the profits to the plaintiff, saying: "Exactness is obviously out of the question, and it would be a sham to pretend to it." He then continued:

"The fact is that the relative contribution of two or more essential factors to a common result cannot be ascertained quantitatively. But we must adopt some working rule to avoid instances of grotesque injustice." It shocks the sense of justice of any one to take away the whole of the profits of a business because its owner has used a single small patented detail; for long courts stood powerless before this situation, but now

we have a different rule. If, however, we are to apply it with ruthless logic, our second situation will be as bad as our first, and a single patent infringement may become the signal of financial ruin, though it was accompanied by the best of faith. *I think that we must show that the law can be more plastic even at the expense of formal consistency. Surely it is a strange habit of mind which at once tolerates the extreme latitude allowed to juries in the assessment of damages, because their processes are not disclosed, while it insists upon an impossible nicety of calculation even at the expense of any justice whatever, when they are.*"

In *Stearns-Roger Mfg. Co. v. Ruth* (C. C. A. 10, 1936), 87 F. (2d) 35, 39, Judge McDermott advocates "a practical approach" as "a better solvent \* \* \* than the theoretical" one. After speaking of the perplexity which "persists in many cases" and the absence of "magic in words which leads directly to a just result", he commends Judge Hand's opinion in the *Cincinnati Car Co.* case as going far "toward clearing up the problem" and relieving the court from the effect of the conventional distinction which, although it "suffices in most cases, \* \* \* may be pressed to the point, as Judge Hand points out, where the conscience of the Chancellor rebels". He then continued:

"A practical approach is a better solvent of the problem here than the theoretical. If the case is such that it is practicable for the patentee to apportion the profits between what is new and what is old, he should do so or fail. If it is not, then the infringer should either make the apportionment or yield up all the profits *unless such a decree would be shockingly unjust, in which event the patentee should be relegated to*

*a royalty.* This, as we understand it, is the rationale of Judge Denison's opinion in *Egry Register Co. v. Standard Register Co.*, *supra*.<sup>67</sup>

In *Standard Scale & Supply Co. v. Cropp Concrete Mach. Co.* (C. C. A. 7, 1925), 6 F. (2d) 447, 454, 455, the court, though treating the principle of confusion as being applicable, said that:

"\* \* \* whenever the court reaches a point or sum where it is demonstrable that to go beyond that point or exceed that sum is to set over to plaintiff profits to which the infringing elements make no contribution, that point or sum is the proper place to stop in enforcing the rule.

"With these observations before us, it is clear that all profits of the defendant which can with reasonable accuracy be attributed to non-infringing parts are to be deducted, before the rule which attends confusion of profit is applied."

There the court apportioned on a practical basis ( $\frac{1}{3}$  and  $\frac{2}{3}$  as to a portion of the infringement period and  $\frac{1}{2}$  and  $\frac{1}{2}$  as to the remainder of such period), although "unable to make the apportionment in the ordinary sense by allocating to each a certain sum."

The petitioners in their brief (pp. 7, 22-8) argue that patent cases are not analogous in that there is some inherent difference between the infringement of a patent and the infringement of a copyright.

It is a complete answer to petitioners' contention that the courts have, in determining questions in relation to profits in copyright cases, referred to patent cases, and conversely. In the *Westinghouse* case (225 U. S. 604), this Court, as authority for its rules as to apportionment, cites both *Callaghan v. Myers* (428 U. S. 617) and *Marman v. Tegg* (2 Russ. 385) copyright cases; and in *Callaghan v. Myers* it will be



recalled that the Court cited *Elizabeth v. Patment Co.*, 97 U. S. 126, a patent case.

We submit that in its final analysis the question of apportionment in both patent and trade-mark cases, as well as in copyright cases, rests upon the application of the principle of cause and effect. This is the same principle which is applicable at law to the determination of damages where the inquiry is as to the plaintiff's losses. In equity the sole inquiry is as to the amount of defendant's gain or unjust enrichment attributable to the infringer's use of the plaintiff's property.

The foregoing principles upon which apportionment has been permitted and even required in patent cases in order to avoid injustice are equally applicable in a copyright case such as this. These principles of apportionment are not due to any peculiarities of the patent law but are governed entirely by the fact that equity should *always* control its decrees in order to avoid injustice. This universal power of the courts of equity (see *Harms & Francis, etc. v. Stern* (C. C. A. 2, 1916), 231 Fed. 645, 648; Parkes' History of Chancery, p. 506) is the same principle which controls in patent cases (see *supra*, pp. 13, 14). Nor can the difficulties surrounding the question of apportionment of profits in copyright cases justify the Court in evading the issue. In the patent cases the courts have uniformly recognized the necessity of overcoming almost insuperable difficulties of apportionment. The District Judge here, although he felt bound by ruling precedent to deny actual apportionment, stated that (R. 1200), "The rule for apportioning profits, followed in patent infringement cases, should not be difficult of application to copyright infringement cases."



### Copyright Decisions.

We have seen that the Copyright Act itself did not contemplate any change or limitation in the power of a court of equity to control its own remedy of an accounting of profits in accordance with its own established principles, including the power to mold its decree in the interests of justice.

The cases relied on by the plaintiffs as requiring an award to them of all profits (*Callaghan v. Myers* (1888), 128 U. S. 617; *Belford v. Scribner* (1892), 144 U. S. 488; *Dame v. Kirk La Shelle Co.* (1910), 175 Fed. 902), were, with the exception of the last case, decided prior to the Copyright Act of 1909, but we submit that the lower Court has properly held that these cases do not lay down any such general rule.

While the *Kirk La Shelle Co.* case was decided subsequent to 1909, the Act by its express terms was not applicable since the infringement occurred before its passage. Much is made by plaintiffs of the fact that Judge Hand in his opinion below referred to the *Callaghan* and *Belford* cases as "not to be taken as holding the infringer must always be unsuccessful, no matter what evidence he may bring forward" but that such cases hold "no more than that when he (the infringer) makes no effort to discharge the duty resting upon him, he will be cast for the whole profit" (R. 1260-1).

Plaintiffs complain that this distinction has no basis in fact. On the contrary, we submit that an examination of the records in both of these cases fully supports Judge Hand's statements. In the *Callaghan* case, we find nothing in the entire record of that case to indicate that the defendant Callaghan made any effort whatsoever to apportion profits, either by way of evidence or by argument. Our opponents

state (Brf., p. 14) that "Callaghan's counsel in his brief to this Court (p. 7), urged that apportionment be made on the physical content measured separate from the opinions. \* \* \*". An examination of the 155 page Callaghan brief does not disclose any such contention at page 7 or elsewhere. In the *Belford* case, the so-called "effort to discharge the duty" was based upon the testimony of a witness (Brf., p. 13) who made an ineffectual effort to divide the infringing work into infringing and non-infringing parts on a basis which was not supported by the facts as found by the Master and the trial Court. Judge Hand might well have added that there were no bases for apportionment in either of those cases, since in both cases the lower Courts had found that the copyright works had been appropriated in their entirety.

Both cases involved compilations based upon copyrighted works wherein neither infringer had resorted to original sources of information. Both infringing works were found factually to have been entirely copied from the copyrighted works, either literally or with only colorable alterations. It seems fairly inferable from the opinions in both cases that the Court might have made actual apportionments of profits if the respective defendants had been able to show that they had made contributions to the commercial success of the infringing works to which any portion of the profits were properly ascribable. This was a necessary foundation for an apportionment. In no event did the Court in these cases intend to lay down a rule that under no circumstances can a defendant in a copyright case claim an apportionment of profits.

The *Callaghan* case involved certain infringing volumes of Illinois Supreme Court Reports which were published as "Freeman's Reports". The infringed copyrighted works had been similarly desig-

nated and sold by their author, one Freeman. Not only were the opinions of the Court, admittedly in the public domain, lifted bodily from the plaintiff's reports (p. 630), but the headnotes, arrangement of cases, indices, annotations, etc., were either copied verbatim, or copied with only colorable alterations. The infringing work carried the same page numbers as those of the copyrighted work, so that it could be used in connection with citations intended to be applicable only to the copyrighted work.

In rejection of any possible claim of apportionment based on the inclusion of the public domain material, the opinions, the Court said (p. 649):

"A publication of the mere opinions of the Court in a volume without more, would be comparatively valueless to anyone."

The Court based its decision in the *Callaghan* case on the decision in *Elizabeth v. Pavement Co.*, 97 U. S. 126, where it was held that the marketable value of the infringing street pavement was wholly attributable to the wrongful use of the plaintiff's patent. "It was this thing, and not another, that the people wanted and required" (p. 141). The defendant in the *Elizabeth* case also failed to show that any of the profits were due to elements other than the plaintiff's patent. The Court said (p. 142):

"A separation of distinct profit derived from Brocklebank & Trainer's improvement; if any such profit was made, might have been shown; but, as before stated, the appellants failed to show that any such distinct profit was realized."

In the *Callaghan* case, the Court also quoted (p. 656) a purely obiter statement of Lord Eldon's in *Mawman v. Tegg*, 2 Russ. 385 (1826) which cannot be read out

of its setting. This statement was made at the outset of hearings before him which extended over six days. *The case was settled* before any decision was made. Lord Eldon had; however, prior to settlement, referred the matter to a master for a report as to the relative amounts of infringing and non-infringing matter, and had indicated that he considered a finding on this subject important for the purpose of deciding on the request for an injunction and in making a disposition of the profits. We have been unable to find a single reported English copyright case where the principles stated by Lord Eldon have been applied to defeat an apportionment.

In *Belford v. Scribner*, the defendants published and sold two editions of a cook book, a cheaper and a more expensive edition, copied entirely from plaintiff's copyrighted work and without resort to original sources. The trial court there, as did this Court, based its award of all the profits on the finding of the Special Master that (pp. 493, 508)

"\* \* \* the matter and language of said books is the same as the complainant's in every substantial sense."

It appears clearly from the report of the Master in the *Belford* case that he had found that the entire infringing work was copied from plaintiff's, either verbatim or "with occasional change of phraseology." The report concluded as follows (p. 494):

"In all of the alleged illegal publications the defendants are shown to have used the material of the complainant instead of resorting to original sources of information."

The trial court in that case disregarded the so-called expert testimony referred to by petitioners

clearly because the facts on which it was based were opposed to the express findings of the Master, which it adopted as its own. While it is true that the defendants in the *Belford* case *pleaded* that the infringing portions "do not exceed from 10% to 15% of the entire contents," the complainant on the other hand *pleaded* (p. 492):

"that more than 170 receipts contained in said piratical work were copied *verbatim et literaliter* from the said copyrighted work of the plaintiff, said receipts comprising a part or the whole of over 150 pages of said piratical work; that many other parts of that work, besides said 170 receipts, are infringements upon the copyrights of the plaintiff, and many of the remaining receipts are in fact copied from the plaintiff's book, with certain changes in the phraseology thereof; and that the subjects in the piratical work and the index thereto are arranged in the same order, and with almost the same headings, as in the plaintiff's work, and were copied and imitated therefrom."

The petitioners in their brief (p. 13) emphasize the fact that no testimony was offered by Scribner, the plaintiff, to rebut the defendants' testimony that a part only of plaintiff's book was infringed. The best rebuttal offered by the plaintiff was the defendants' books themselves, from which it appeared, and the Court so found, that the "matter and language of said books is the same as the complainant's in every substantial sense." Naturally, in such circumstances, this Court quite properly paid little heed to any claim for an apportionment.

The decision in the *Belford* case is based, as was that in the *Callaghan* case, on the decision in *Elizabeth v. Pavement Co.* *supra*, which the Supreme

Court in *Westinghouse Electric & Manufacturing Co. v. Wagner Electric & Manufacturing Co.*, 225 U. S. 604, 614, cited as authority for the proposition that:

"(c) Where profits are made by the use of an article patented as an entirety, the infringer is liable for all the profits unless he can show—and the burden is on him to show—that a portion of them is the result of some other thing used by him."

The only other case dealing with the subject of apportionment of profits (*Dan v. Kirk La Shelle Co.* (C. C. A. 2, 1910), 175 Fed. 902) is the one which in the opinion of the District Court in the instant case, although contrary to its own sense of justice, compelled it to award all the profits to the plaintiffs. As already shown the 1909 Act was not applicable to that case. This case as we have stated was expressly overruled by the Circuit Court of Appeals in the instant case.

The *Kirk La Shelle* case was one involving infringement of a copyrighted story by a stage production presenting a dramatized version of the story. The defendant there had been given notice shortly after the commencement of the production that the play was an unlawful dramatization of the copyrighted story. In connection with the decision, the fact has usually been overlooked that prior to the Act of 1909 there was no provision whatever for statutory damages in the case of *an infringement of an undramatized story by a dramatic production*. It was this fact alone which led the Court there to state (175 Fed. at p. 908):

"\* \* \* unless the complainant is entitled to all the profits arising from the production of the play, she is, as a practical matter, entitled to no pecuniary recovery at all."



We shall point out later in another connection that the so-called "in lieu" provisions of the Copyright Act of 1909 if they had been applicable in that case, would have enabled the Court to make an award of "such damages as to the court shall appear to be just." Even under the difficulties presented by the circumstances of that case, the Court (at p. 908) described the award of all the profits as "most unjust" and as imposing "hardships" on the defendant. On petition for modification of mandate, the Court showed that it was averse to awarding profits if there were "a lawful and practicable method of ascertaining substantial damages" (p. 911). However, we submit there was not then, nor is there now, an equitable precedent for so severely punishing the offender, in disregard of the court's general equity powers to make a just award. We submit that in the interest of justice an equity court has the power even to make a wild guess, or to apportion on intuition alone rather than to make what it characterizes as a "most unjust" decree.

Speculative approximation has been resorted to in order to avoid obviously unjust results. See *Cohan v. Commissioner of Internal Revenue* (C. C. A. 2, 1930), 39 F. (2d) 540, 543-4.

Furthermore, as pointed out by Judge McCormick, in his dissenting opinion in *Harold Lloyd Corporation v. Witwer* (C. C. A. 9, 1933), 65 F. (2d) 1, 46, the *Kirk La Shelle* case is also distinguishable on the ground that it had nothing to do with infringement by a motion picture which is "of an entirely different character than infringements of literary works by the spoken drama." The Court below evidently did not think it worth while to distinguish the *Kirk La Shelle* case but instead met the issue by expressly overruling it.

The case of *Harold Lloyd Corporation v. Witwer*,

above referred to, is the only case dealing directly with the subject of an award of profits in connection with an infringement by a motion picture film. This case was decided as recently as 1933. It might have served as a decisive precedent in the instant case, except for the fact that the majority of the court reversed the finding of infringement by the District Court, primarily on the ground that the infringement was unsubstantial. Judge McCormick in his dissent expressly disapproved, under circumstances closely related to those involved here, an award of all the profits made from the motion picture. The suit was brought to enjoin the exhibition of a silent photoplay on a claim that it infringed the plaintiff's rights in a copyrighted short story. Plaintiff, who had acquired the copyright by assignment from the magazine, sought to recover profits claimed by the plaintiff to amount to \$2,300,000, which the defendant admitted to be over \$1,000,000.

The lower Court ruled that the copyright had been infringed and entered a decree in broad terms for an accounting of damages and profits. Upon appeal by the defendant, the appellate court reversed and directed a decree of no infringement. The dissenting Judge, who was voting for affirmance, apparently wrote his opinion to rebut the idea that he ever had in contemplation any award to the plaintiff of all the profits of the motion picture. If speculation were permitted, it would seem that the third Judge (Sawtelle, C. J.) had not voted until after the two opinions had been written. On the subject of an award of all the profits, all the judges were apparently in agreement in opposing such an award. After making an argument based upon the supposed hazard the defendants were taking in spending \$330,000 on a motion picture and in incurring liability for all its

profits, and at the same time refusing to pay a negligible amount for the right to produce the story with the authority of the copyright owner, Judge Wilbur said for the majority (p. 18):

*"We are assuming in making this statement that the copyright owner is entitled to all the profits derived from the infringing play. We do not wish to be understood as approving that doctrine which is one of the main issues in the case at bar, if infringement is found."*

The language, "if infringement is found" would not, we submit, be included in an opinion which at the time of writing was known to be one reversing a finding of infringement.

Judge McCormick, who dissented, undoubtedly felt he owed a duty to jurisprudence to perpetuate the results of his elaborate research, as well as to explain his dissent. In the first part of his opinion (pp. 28-44), he gave his reasons for wishing to hold in the plaintiff's favor on the issue of infringement. In the latter part of his opinion (pp. 44-48), he repudiated the plaintiff's claim for all the profits. The grounds for this repudiation are as follows:

(1) By Section 25, an equity court is "invested with discretion in copyright infringement cases upon granting an injunction to administer such monetary relief as appears to the court to be just under the particular facts and circumstances of the suit". A suitor cannot "control the conscience of the chancellor" or "prevent him from entering the decree that the equities of a case require", etc. (p. 45).

(2) The history of Section 25, considered in connection with the amendment of 1912 (Townsend Act of August 24, 1912), shows that infringement by a

motion picture was regarded as "of an entirely different character than infringements of literary works by the spoken drama", and this difference was recognized when such amendment was drawn (pp. 45, 46).

(3) " \* \* \* in fact much of the value and merit of the picture has no relation whatever to the story, and many of the episodes and sequences in the picture are in no way suggested by Witwer in the story" (p. 47).

(4) " \* \* \* under all the facts, circumstances, and equities of this case, any award of all the profits is inequitable and should not be allowed", and when the "in lieu" clause of Section 25(b) was enacted, it was intended to "enable the court of equity to adapt its processes to meet the specific requirements of concrete cases independently of the precise demands of suitors" (p. 46).

It seems to border on absurdity to say that under such circumstances, an equity court, whether its award be one of a proportionate share of the profits or an award of "such damages as to the court shall appear to be just", is powerless to do justice to both parties by making a "reasonable adjustment of the rights of the parties". This is the guide to all cases involving a confusion of profits or property, given by the comparatively recent English case in the House of Lords of *Sandeman v. Tyzack* (1913), A. C. 680, 695. There Lord Moulton said (p. 695) that this subject of confusion is "far from being within the domain of settled law" and that the cases usually are "instances of cutting the Gordian knot" which call for "reasonable adjustments of the rights of the parties".

As to the trade-mark case of *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U. S. 251, the plaintiffs

apparently fail to comprehend the grounds for that decision. The difficulty there was that the defendant attempted to throw the burden of apportionment upon the plaintiff, claiming that it was the plaintiff's duty to show what sales made by the defendant were attributable to the use of the trade-mark and what sales were not so attributable. The Special Master below (p. 255) had found for profits in respect of shoes sold (1) bearing the stamp "American Lady" without any other distinguishing marks, and (2) stamped "American Lady" followed by the words "Hamilton-Brown Shoe Co.", but without anything else to denote that the shoes were of defendant's manufacture. *Profits were disallowed by the Master as to shoes marked with the trade-mark followed by the name of the defendant as maker.* The trial Court sustained exceptions to the Master's report and held that the plaintiff had failed to make out a case, except for nominal damages. The Circuit Court of Appeals overruled the exceptions and sustained the Master, thus awarding to the plaintiff the entire profits in cases (1) and (2) above. This award was sustained by this Court. Thus in that case the Court was confronted with the alternative of awarding to the plaintiff all the profits or reducing the award to nominal damages merely. We submit that this Court, when it spoke of "inherent impossibility" of apportionment, was speaking entirely as to such impossibility on the part of the plaintiff. If apportionment were possible, it was a burden which the defendant alone could discharge, failing which it should have been required to surrender all its profits rather than to relegate the plaintiff to merely nominal damages. It is well to note in this connection that the language of the trade-mark statute in reference to an award of profits is the same as that of the patent statute (Tit. 15; U. S. C. A., Sec. 99).



In order to understand the reference by this Court in the *Hamilton-Brown Shoe Co.* case to the *Westinghouse* case, quoted at page 21 of petitioners' brief, it must be borne in mind that the main purpose of the holding in the *Westinghouse* case was to relieve the plaintiff from an impossible burden of apportionment in order to obtain a recovery for more than nominal damages. It is entirely likely that the defendant in the *Hamilton-Brown Shoe Co.* case might have been able under some principles of apportionment to show that certain of the sales were not connected with the use of plaintiff's trade-mark. In any event the burden of such proof was one which should have been borne by the defendant. In the instant case the defendants have assumed and discharged that burden.

Petitioners in their brief (p. 7) state that the lower Court, in making an apportionment of profits, "has rendered the first decision of its kind in this country or in England that counsel has been able to find".

In England, the Copyright Act of 1911, Section 6, by its very terms in giving a remedy to the copyright owner, provides that such remedy shall be "by way of injunction or interdict, damages, accounts or otherwise as may be conferred by law", thus showing in respect of an accounting, or "accounts", that the equitable proceeding remains unaffected by the statute. While it is true that there are no reported English cases expressly permitting an apportionment, it is also true that there are no cases laying down any rule that the copyright owner is entitled to all the profits of the infringer.

A search made in the two standard English digests, *Halsbury's Laws of England* and *English and Em-*



pire Digest, and in their Supplements, discloses only one reported case where an actual award of profits in a copyright case was made. (*Delfe v. De Lamotte* (1857), 3 K. & J. 581.) That case involved an infringing book which *wholly* infringed the copyright work. It simply decided that on the accounting the defendant is entitled to deduct his expenses.

In the case of *Colburn v. Simms* (1843), 2 Hare, 543, the accounting filed with the defendant's answer showed an actual loss and this account was accepted.

We mention the foregoing for the purpose of rebutting a possible adverse inference from defendants' failure to cite any English authorities in support of an apportionment of profits in copyright cases. The likely explanation of the dearth of English authorities on the subject is that in England the copyright proprietor must elect between damages and profits.

*Neilsen v. Betts*, L. R. (1872), 5 H. L. 4;

*De Vitre v. Betts*, L. R. (1873), 6 H. L. 319.

There are, however, three recent English cases in which *damages* have been awarded on the basis of an apportionment as between non-infringing and infringing parts of a plagiaristic work.

*Ash v. Dickie*, L. R. (1936), Ch. 655;

*John Lane, etc. Ltd. v. Associated Newspapers*, L. R. (1936), 1 K. B. 715;

*Carton Publishing Co. v. Sutherland Publishing Co.*, L. R. (1939), A. C. 178.

For example, in the *Ash* case, Master of the Rolls Wright said:

"\* \* \* the matter can only be one of estimate and the Court must act as the jury would act in similar circumstances."

***The Record Here Affords Adequate Bases for Apportionment of Profits in the Instant Case.***

As stated many times in patent cases, apportionment is a practical problem and the method must in the nature of things depend upon the facts and circumstances of the particular case.

The factual and uncontradicted proof in this record afforded adequate bases for the separation of those profits which were due solely to the infringement from those profits due to the defendants' own contributions to the success of the motion picture, thus permitting the court to render to each party no more than that which was justly his and to avoid an unjust result. No less than five lines of proof support the finding that "at the utmost" the contribution made by the copyrighted play to the commercial success of the motion picture was only a fractional part of the total profits. Among the lines of proof thus offered were the following:

1. Proof of a general nature showing that the Picture was marketed or licensed to exhibitors in such a manner that the Play at the utmost necessarily made only a small contribution to its commercial success.

The play, "Dishonored Lady", starring Katherine Cornell, had opened in New York City on February 4, 1930, and ran until about May 24, 1930,—a short run in the case of a play starring Katherine Cornell. It had a short run in London in May of that year, played in Los Angeles from September 8 to September 20, 1930, and then went on the road, playing in Boston, Philadelphia, Baltimore and Chicago. It ended its run about Christmas of that year (R. 631). Such a run would not stamp it as a successful play. Obviously, the play acquired no universal reputation

because of this showing or "novelty" of plot. It is not unlikely that even such gain as the play had was due largely to the acting of Katherine Cornell, and only partially due to the story itself.

There was nothing in the Play's title; the names of its characters, or in the exhibition or marketing of the Picture to cause the public in any manner to associate the Picture with the Play.

It was shown that the motion picture, "Letty Lynton", was licensed to practically all exhibitors as a *Joan Crawford* picture. In the form of licensing contract it was referred to only as "Production No. 208, Joan Crawford, No. 2" (Defts'. Ex. 16, R. 324, 767). 7315 exhibitors out of 7666 to whom it was licensed signed contracts in such form before the motion picture had any other name or designation (R. 322-326; Defts'. Ex. 15, R. 324, 766). The title "Letty Lynton" was not announced to the trade or to the public until a few weeks prior to the Picture's actual release in April, 1932 (R. 325). Only 351 exhibitors licensed the Picture after its title was announced.

Thus it will be seen that the Picture was licensed to practically all exhibitors solely on the basis of the popularity and drawing power of the actress star, Joan Crawford.

2. Proof showing that the production of the motion picture, far from being a mere mechanical reproduction or transcription of the play as a spoken drama, was in itself a new, artistic creation requiring the exercise of creative faculties throughout its period of production.

The Special Master went to the defendants' Studio at Culver City, California, to take the testimony of witnesses. While there, he went over the Studio where the motion picture was produced (R. 38-39).

This physical view of the Studio and its extensive equipment afforded him an opportunity to observe and fully appreciate the enormous facilities and vast organization required to make a motion picture. The Master was shown how this organization, built up over a period of many years and divided into many technical and artistic departments, functioned in the process of producing a motion picture.

After this view of the Studio, Mr. Louis B. Mayer, the Studio head, and the numerous departmental heads, were called before the Master to explain the diversified creative operations entering into the making of a motion picture (R. 83-180, 185-214).

This testimony showed that the making of a motion picture, far from being a mere matter of mechanical reproduction as in the case of practically all other forms of infringement, was from beginning to end, a series of creative operations, starting with the adaptation of the story, and continuing to the completion of the picture, and that this process throughout called for the exercise of the creative faculties, both artistic and scientific, as to production, direction, scenic effects, photographic and sound reproduction, and the like.

3. Proof that the commercial value of the Picture was principally attributable to factors other than the use therein of portions of the Play, and that the maximum possible contribution of the Play to the profits of the Picture was 10% thereof.

Experts testified that the drawing power of the Picture was not due to the Play or to the fact that certain sequences of the Play were found in the Picture. The fact that the Picture was sold to exhibitors as a *Joan Crawford* picture is in itself conclusive.

There is much testimony—entirely uncontradicted—that the largest share of the drawing power of a motion picture—75% or more in the case of a picture with Crawford and Montgomery as stars, and a title not identified with any well known play or novel—is attributable exclusively to the stars. (Mayer, R. 165-167; Jaycocks, R. 566-7; Skouras, R. 575; Benas, R. 590; Rinzler, R. 598; Blumberg, R. 602; Notarius, R. 610; Yoost, R. 618). The remainder of the drawing power of the Picture was due for the most part to the fame of the producer and of the director, and to some extent to Metro-Goldwyn-Mayer's reputation, great organization and investment, and its good-will among exhibitors and with the public (Jaycocks, R. 567; Rinzler, R. 598). As previously noted, this testimony is in accord with what anyone familiar with the motion picture business knows. Indeed, Lichtman, who had served in an executive capacity in the industry for 27 years, testified that in the cases of such outstanding stars as Mary Pickford, Charles Chaplin and Harold Lloyd, they constituted "practically the whole drawing power" of the pictures in which they appeared (R. 558-9).

The defendants' witnesses testified as to the share of the profits of a motion picture which was attributable to the use therein of a play which had only a short run, and which was not advertised or shown by the picture as having any connection with such play. They all testified that the share of such profits represented by the drawing power of the play was very small. Some of the witnesses when pressed for an answer felt constrained to assign no drawing power whatever to such a play or story. The witness most liberal set 12% (Blumberg, R. 602). Most of the witnesses set 10% as the highest that could reasonably be assigned to the literary or written mate-

trial (Rinzler, R. 598; Notarius, R. 610). Other witnesses set 5¢ (Cohn, R. 267; Jaycocks, R. 567; Zukor, R. 282-3). Mr. Lichtman found all the figures suggested by the others too high and finally gave as his estimate "nothing" (R. 544, 561; and see Mayer, R. 166-7, and Skouras, R. 576, 579). The complete testimony in accordance with the foregoing line of proof is in the following pages of the record (R. 151-169, 264-284, 540-622). All the foregoing testimony is factual, direct and uncontradicted.

From the beginning of motion pictures, through the period of the silent pictures and of the talking pictures, the stars are what give the motion picture its principal value as a "marketable commodity". The defendants' publicity man, Strickling, testified as to the meaning of star popularity and drawing power in the cases of Joan Crawford and Robert Montgomery, the stars of "Letty Lynton" (R. 173-180). The title "Letty Lynton" had no more significance to the exhibitors and the public than would the title "Mary Smith". Such is the uncontradicted testimony of the exhibitors themselves (R. 569, 591, 599, 603, 619). The same witnesses have also testified as to the value of the reputation of the producer, Hunt Stromberg, and of the director, Clarence Brown, in the distribution and exhibition of motion pictures.

**4. Proof showing that the value or cost of motion picture rights of a play such as "Dishonored Lady" was, as a matter of simple mathematics, only a small part of the entire value or cost of a finished motion picture such as "Letty Lynton".**

The maximum value of the motion picture rights to the play, "Dishonored Lady", as we have seen was fixed at \$30,000 (*supra*, pp. 8, 9). This amount was shown by the evidence to have been not more than 1/10th of the capital devoted by the defendants to the production of the motion picture.



This comparison of values corroborates the testimony of experienced witnesses to the effect that the plot or story of a motion picture accounts for not more than 10% of its net profits. Furthermore, relative cost or value is a recognized basis of apportionment in all cases involving the confusion or mingling of a wrongdoer's money or property with that of the plaintiff (*Restatement on Restitution*, Sections 209, 210 and 214, 39 Col. L. R. 869). This method has also been applied in patent cases. See *Walker on Patents* (Deller's Ed. 1937), Section 853, page 2205.

The comparative contribution of the plot or story to the completed picture is graphically shown by a comparison of some of the costs of producing the picture "Letty Lynton". Even assuming that the defendants took the entire plot from the plaintiffs' play, still it will be seen that around \$30,000 (the identical amount at which the plaintiffs were willing to sell their play) was spent on the preparation of the script or continuity. One writer alone received \$23,333.34 for his work in making the story suitable for motion picture purposes (Defts', Ex. 18 D 2, R. 328, 782).

An even greater amount of money was spent upon the sets for the action of the picture or "Cost of sets"—\$36,849.55 (Defts', Ex. 18 D 4, R. 328, 786-7). This involved not only technical work, but required in addition artistic conception and creative activity.

Of significance is the fact that the director of the picture, Clarence Brown, was paid \$75,000 for this single picture (Defts', Ex. 18 D 1, R. 328, 780). This amount is several times the usual price of a play or story, and two and a half times the price at which the plaintiffs were willing to sell the motion picture rights of their play. The very magnitude of the director's salary shows that the finished work is to a large extent the original creation of the di-

rector, working, of course, in co-operation with the producer of the picture.

So, also, the cameramen are paid not as mechanics, but as creative artists. On this picture one man alone was paid \$2,933.32 out of the total cost of the work of photographing, lasting thirty-three days, viz. \$5,230.80 (Defts'. Ex. 18 D 1, R. 328, 780). The Copyright Law itself recognizes that photography is an art, as well as a science, and permits the copyright of mere photographs, if showing artistic originality. *Barré-Giles Lith. Co. v. Sarony* (1884), 111 U. S. 53.

When the schedules showing direct costs of the picture (Defts'. Ex. 18 D 1 to 18 D 4, R. 780-7) are read in conjunction with the testimony of the Studio Head and of the various departmental heads (R. 83-180, 185-214), it will be seen that the motion picture is from first to last a work involving creative artistic conception and embodying the composite result of the intellectual efforts of leading artists and technicians in every line (Mayer, R. 146-172).

5. Proof analogous to a showing of "reasonable royalty" in patent cases to establish by current sales of motion picture rights in other plays that the motion picture rights to the play "Dishonored Lady" were worth not more than \$30,000.

The reasonableness of this figure as a royalty for the motion picture rights of the play was fixed by the plaintiffs themselves in their negotiations with the defendants for the sale of those rights. Furthermore, expert testimony was adduced, corroborating the reasonableness of this figure.

It was shown that, except in one or more rare cases, profits or a portion of the profits of a motion picture have never been the basis for compensating an author of a story or play for this contribution

to a motion picture. The witness Zukor of the Paramount organization, having had long experience in motion picture production, knew of only one instance where a percentage of the receipts was the basis of such compensation. For the right to make the motion picture of the world famous book and play "Peter Pan" with the right to use that famous title, the producers contracted to pay the author, Sir James Barrie, 7% of the gross receipts (R. 283).<sup>\*</sup> A flat sum, plus a percentage of the gross receipts, was said to have been paid for the use of the exceptionally successful play, "Abie's Irish Rose". With these two possible exceptions, authors always receive a fixed sum or license fee for the use of their literary material in motion pictures.

There is in the record (R. 675-6) a list of plays, the motion picture rights of which were sold in and about 1932, and the prices paid for such rights. At pages 680-85 of the record, certain testimony was admitted by stipulation (Defs. Ex. 30 for Identification by Ligon Johnson) giving a brief statement as to the runs of the plays embraced in this list of plays. By a striking coincidence, the average price shown by the list is a little under \$30,000, the price placed by plaintiffs on the motion picture rights of their play, and the highest prices on the list were materially less than the amount of the award now being reviewed. These latter prices were paid for plays which were far more successful and better known than the plaintiffs' play.

The sale of the picture rights in his copyrighted

<sup>\*</sup> Indeed, the testimony of Mr. Zukor is worthy of special attention, for he was for many years the President of Paramount Corporation, and at the time of testifying he was Chairman of its Board of Directors. The Paramount Corporation owned, through its subsidiary, Charles Frohman Company, a 50% interest in the motion picture rights of the play "Dishonored Lady" (R. 279, 637).

material is in fact the only means open to the author for the exploitation of his work in motion picture (Lichtman, R. 547, 548, 558). The facilities and equipment necessary to make motion pictures, with the technical personnel and the special and unique properties and equipment required, take years to acquire and involve such a large investment, that as a practical matter, only a restricted number of motion picture producers are able to make motion pictures. This circumstance is of the utmost importance in fixing the compensation of the plaintiffs (see Robinson on Patents, Sections 1055 *et seq.*).

Although the Special Master made no attempt to apportion the profits, the District Court, on the basis of the proof stated above, did form a conclusion as to a "just" sum that should be payable to the plaintiffs, either as an apportionment of the profits or as a finding of "such damages as to the court shall appear to be just". That court found that more than 75% of the net profits of the picture "Letty Lynton" was *not* attributable to the use which the defendants made of the plaintiffs' play, saying that

"An allowance to complainants of 25% of the net profits, as restated, or about \$133,000 would be such a sum as could be justly fixed as a limit beyond which complainants would be receiving profits in no way attributable to the use of their play in the production of the picture" (R. 1202).

6. A comparison was made of the Play and the Picture, as well as of the Trial and the Novel, for the purpose, not of contesting the finding of infringement, but of showing the proportionately small contribution which plaintiffs' literary material made to the Picture.

The testimony of all the experts was predicated on the hypothesis that the motion picture made use

of the entire copyrighted work. The Court below, in making its apportionment, pointed out that this was not the case, saying (R. 1264):

“\* \* \* all the witnesses’ estimates were based upon the contribution of the entire play; that is, as though it was completely the work of the plaintiffs. As we know, that was not the case; the plaintiffs worked over old material; the general skeleton was already in the public domain. A wanton girl kills her lover to free herself for a better match; she is brought to trial for the murder and escapes. *Nobody can say how far this basic plot is to be credited with whatever the play contributed to the drawing power of the picture.* That consideration must therefore count towards reducing the percentage of profits recoverable.”

As already shown, Judge Woolsey found that the defendants had taken nothing from the Play which was protected by copyright (*supra*, p. 3). The Circuit Court of Appeals found no taking of any of the dialogue but only of certain ideas embodying dramatic sequences or “variants” from the Play; that “much of the picture owes nothing to the play; some of it is plainly drawn from the novel”; that “much of the play was borrowed from the story of Madeleine Smith”, and that the infringement was only one “*pro tanto*” (*supra*, pp. 3, 4). Even as to “those similarities which seem to pass the limits of ‘fair use’” (P. R. 937) defendants showed in their petition for rehearing (P. R. 944-971) that much of the force of the so-called “parallelism of incident” was broken by similar “parallelism of incident” in respect of matter either in the Trial or in the Novel both of which works were available to the defendants’ use.

In connection with this so-called "parallelism of incident", there was submitted to the Special Master a brief entitled "Comparative Analyses of Play and Picture, Trial and Play, submitted by Defendants" (R. 961). With this brief, there were also submitted to him all the four works which were in evidence. The Play (P. R. 238-494) and the continuity of the Picture (P. R. 495-622) are printed in the prior record at the pages indicated. The Trial (Defts.' Ex. R-2, R. 639) and the Novel (Defts.' Ex. R-5, R. 641), each in separate bound volumes, are not printed as part of the record but will be filed with the Court.

In connection with the foregoing proof, it must be noted that motion pictures present a novel and unique problem in so far as copyrights are concerned. The modern talking motion picture, which did not exist prior to 1926, is essentially more novel than the silent picture. Even as to silent pictures, Judge McCormick in the *Harold Lloyd Corporation* case (65 F. (2d) at pp. 45, 46) pointed out the great difference between an infringement of a copyright by the spoken drama and an infringement of a copyright by a motion picture. We repeat that a motion picture is not a mere "transcription or record", even where the copyrighted play or story is used in its entirety. It creates a new problem, from the standpoint of a determination of profits, in finding out what was the "thing and not another, that the people wanted and required", the test for determining the commercial value of the infringing article as a *marketable commodity*, set forth in *Elizabeth v. Parment Co.* (97 U. S. 126, at 141).

The play or story may be utterly drab, and still the picture may be made not only saleable but financially successful (Mayer, pp. 146-171). The fairy



story "Snow White and the Seven Dwarfs", viewed apart from a motion picture created by the genius of a Walt Disney, could hardly be said to have any drawing power for adults as well as children, as a "dramatic work". Clearly the marketability of the motion picture of that title was not due to any present "novelty" in the story. The commercial value of the finished motion picture is due to the good-will and reputation of the director and producer, to the technical and artistic perfection of each separate picture, to the continuity of the picture as a whole, to the skillful transitions, to the elimination or "cutting" of the superfluous material and, finally and chiefly, to the personality of the stars as depicted in the film itself and imparting to it its principal drawing power,—in our case Joan Crawford and Robert Montgomery who were great favorites with the motion picture public.

The foregoing evidence as to the proportional contribution to the profits of the infringing work affords a well recognized basis for the apportionment of profits in cases of copyright and patent infringement, as shown by the *Westinghouse* case (225 U. S. at 620); where the Court said:

"So that where, by general evidence, expert testimony, or otherwise, it is shown that his patent is of relatively small value, it will often be possible to prove that, at the utmost, it could not have contributed to more than a given amount of the profits. \* \* \* In such cases, except possibly against one who had concealed or destroyed evidence or been guilty of gross wrong, the plaintiff's recovery cannot exceed the amount thus proved, even though it be impossible otherwise more precisely to apportion the profits."

In the *Dowagiac* case, Justice Van Devanter said (235 U. S. at p. 647):

"It well may be that mathematical exactness was not possible, but, as is shown in *Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co.*, *supra*, \* \* \* that degree of accuracy is not required, but only reasonable approximation, which—usually may be attained through the testimony of experts and persons informed by observation and experience."

No case better illustrates the attitude of the courts in seeking to rationalize the principle of apportionment than *Stromberg Motor Devices Co. v. Detroit Trust Co.* (C. C. A. 7, 1930), 44 F. (2d) 958, 961, where Judge Alschuler, upon the basis of expert testimony apportioned to the plaintiff 55.558 per cent. of the total profit. After speaking of a situation where one set of experts would apportion on a 5% - 95% basis and the other set on a 95% - 5% basis, he said:

"In such situation the trier of the fact, be it master, jury, or judge, must decide as best may be under the conflicting evidence, and this was what the District Court said the master should here have done, but failed to do (or did erroneously). —While reams upon reams of evidence were given as to the comparative contributions of Ahara and Baverey to the profits of the infringing carburetor, we do not find that any witness indulged in definite estimates of dollars or percentages of contribution. But without giving figures they expressed their several views of the contribution of Ahara and Baverey by employing adjectives, such as 'little', 'much', 'slightly', 'very', etc., all of which were more or less useful in assisting the inquirer to arrive at some fair conclusion of the contribution of these elements, and were perhaps not less helpful than would

have been extreme figures submitted by the opposite sides of the controversy."

In *Herman v. Youngstown Car Mfg. Co.* (C. C. A. 6, 1914), 216 F. 604, 608, Judge Denison gave weight to the testimony of "a man of experience in the manufacturing and selling field", as one who could "form thereon an intelligent and useful opinion". He said further that "an equal division of the profits among these parties is both arbitrary and reasonable; arbitrary, because of its form, but reasonable, because obviously fair and just".

Accordingly, upon the basis of such testimony of experts and persons experienced in the particular business, apportionments have been made on the basis of the percentage of the total profits attributable to plaintiff's invention. *Stromberg Motor Devices Co. v. Detroit Trust Co.* (C. C. A. 7, 1930), 44 F. (2d) 958, 962; *Standard Scale & Supply Co. v. Cropp C. M. Co.* (C. C. A. 7, 1925), 6 F. (2d) 447, 455; *Herman v. Youngstown Car Mfg. Co.* (C. C. A. 6, 1914), 216 Fed. 604, 608; *Baseball Display Co. v. Star Ballplayer Co.* (C. C. A. 3, 1929), 35 F. (2d) 1, 3; *Dowagiac Mfg. Co. v. Deere & Webber Co.* (C. C. A. 8, 1922), 284 F. 331, 348; *Superior Machine Tool Co. v. Cincinnati Lathe, etc. Co.* (C. C. A. 7, 1922), 284 Fed. 267, 269.

### **Applicability to the Instant Case of Principles Analogous to the "Reasonable Royalty" Rule in Patent Cases.**

The "reasonable royalty" rule became an established equitable principle, following the decisions in such cases as the *Dowagiac* case (235 U. S. 641) and *United States Fruitum Co. v. Lauhoff* (C. C. A. 6, 1914), 216 Fed. 610. It was not until 1922 that it

became incorporated into the patent statutes by the amendment of Section 70 of the Patent Law (35 U. S. C. A.). This amendment expressly permits the use of "opinion or expert testimony" where it appears that the "damages or profits are not susceptible of calculation and determination with reasonable certainty". As was pointed out by Judge Hand, this amendment was adopted in "rather delayed response to these decisions" (R. 1262). As will appear later, it would seem that the so-called "in lieu" provision of Section 25(b) was intended to accomplish this same purpose.

This equitable principle, even before the amendment, became one to be applied even though all other methods of apportionment fail. As the Court in the *Dowagiac* case stated, by this method "a rational separation of the net profits" can be effected "so that neither party may have what rightfully belongs to the other" (p. 647). The Court observed that, after all, the matter taken was property, and that the question resolved itself into one relating to the value of the property taken, saying (p. 648):

"As the exclusive right conferred by the patent was property and the infringement was a fortions taking of a part of that property, the normal measure of damages was the value of what was taken."

After pointing out the absence of "any course of granting licenses" which would have been "indicative of the value of what was taken", the Court said:

"But, as the patent has been kept a close monopoly, there was no established royalty. In that situation it was permissible to show the value

by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, and the extent of the use involved."

It must be noted that there, as here, there were substantial profits which the plaintiff was seeking. At pages 650, 651, Justice Van Devanter said:

"The infringing sales covered 2500 or more drills, the profits were substantial, and the damages, if rightfully measured, were evidently more than nominal."

While the case was *sub judice*,\* Judge Denison wrote his masterful decision in *United States Fr. mentum Co. v. Lanthoff* (C. C. A. 6, June 30, 1914), 216 Fed. 610. Speaking of the difficulty of finding a measure of recovery as to personal property without a market value, he said (p. 616):

"In the same general class are all personal injury cases. Pain and suffering, the loss of earning power, the loss of support, are all things which have no market value and all present situations where the damages cannot be ascertained or computed according to any arithmetical formula; but the jury is put in possession of all the facts and circumstances, it has the benefit of such testimony from experts as may show the rules and methods in force in the particular field, and it estimates, as best it may, how much money will compensate plaintiff for the wrong done."

Among other criteria in fixing that value, Judge Denison speaks of "what share of the profits or of the

\* The *Dowagiac* case was under consideration by the court for a period of twenty-one months after the argument.

selling price, it may be customary in that or similar business to allow for the use of an invention." He then explained the measure of liability proposed by him as being either in the nature of "reasonable royalty" or "general damages".

In this connection, it is interesting to note that Judge Denison was a prominent advocate of the 1922 amendment to the Patent Statute, as shown by the legislative history of the amendment.

In *Merrill Soule Co. v. Powdered Milk Co.* (C. C. A. 2, 1925), 7 F. (2d) 297, 299, Judge Hough pointed out that it was the decision in the *U. S. Frumentum* case "which turned the scale in favor of liberality", and said of Judge Denison:

"That learned judge has done more than any other one man to liberalize the matter of damages for infringement of a patent."

The "reasonable royalty" rule in patent law was established to cover just such a situation as here, where it is difficult to determine with mathematical accuracy the portion of the profits attributable to the infringement. It is applicable also as a measure of damages where other legal damages could not be determined.\*

So in fixing a reasonable royalty, the primary inquiry is the price which the parties would presumably have agreed upon for the use of the invention.

\* See in addition to above cases *Columbia Machine & Stopper Corp. v. Advance Machine Works* (C. C. A. 2, 1935), 79 F. (2d) 16; *Cincinnati Car Co. v. N. Y. Rapid Transit Co.* (C. C. A. 2, 1933), 66 F. (2d) 592; *Rockwood v. General Fire Extinguisher Co.* (C. C. A. 2, 1930), 37 F. (2d) 62; *Alliance Securities Co. v. De Vilbiss Mfg. Co.* (C. C. A. 6, 1935), 76 F. (2d) 503.



In *Egry Register Co. v. Standard Register Co.* (C. C. A. 6, 1925), 23 F. (2d) 438, 443, Judge Denison said:

"In fixing a reasonable royalty, the primary inquiry, often complicated by secondary ones, is what the parties would have agreed upon, if both were reasonably trying to reach an agreement."\*

Judge Hough in *Bush & Lane Piano Co. v. Becker Bros.* (C. C. A. 2, 1916), 234 Fed. 79, 82, had before him as difficult a question of apportionment of profits as could be imagined which he thought should be resolved by using, in proof of a proper apportionment of profits, the same principles as are applied in the reasonable royalty cases. He said, after referring to the principles established in the *Dowagiac* case:

"There is no reason why this view of proper evidence should not be applied to the estimation of profits \* \* \*."

The defendant had infringed a design patent, covering a case for a piano. The court held the infringer entitled to an apportionment of the profits as between the piano mechanism and the piano case. Expert opinion was used in making this apportionment.

The question of apportionment in the instant case, involving no conflict of evidence, is much simpler. In the instant case, there would, of course, be no difficulty in arriving at the reasonable royalty or license fee the parties "would have agreed upon", because as a matter of fact the parties did agree upon \$30,000.

\* See also: *Merrill South Co. v. Powdered Milk Co.* (C. C. A. 2, 1925), 7 F. (2d) 297; *Rockwood v. General Fire Extinguisher Co.* (C. C. A. 2, 1930), 37 F. (2d) 62; *Austin, etc. Co. v. Disc, etc. Co.* (C. C. A. 8, 1923), 291 Fed. 301; *Gear Grinding Machine Co. v. Studebaker Corp.* (C. C. A. 6, 1925), 4 F. (2d) 510.

***In any event the award of the Court below is sustainable under the so-called "in lieu" provision of Section 25(b), which permits the Court to award "in lieu of actual damages and profits, such damages as to the court shall appear to be just".***

As we have already seen, in considering the case of *Dun v. Kirk La Shelle* (C. C. A. 2, 1910), 175 Fed. 902, a court of equity is no longer faced with the dilemma of either awarding to the plaintiff the entire profits made by the infringer or of denying him any pecuniary recovery whatsoever. Even where there is no possible basis upon which an apportionment of profits can be made, still, as we have seen, the Court may avoid manifest injustice by awarding to the plaintiff general damages "in lieu of actual damages and profits", pursuant to Section 25(b) of the Copyright Act of 1909. See Judge McCormick's opinion in *Harold Lloyd Corporation v. Witwer* (C. C. A. 9, 1933), 65 F. 1, 46 *et seq.*

In the case at bar, where the evidence shows that the plaintiffs' contribution to the profits of the picture "Letty Lynton" was 10% or less, the award to the plaintiffs of all the profits of the picture "Letty Lynton" would impose a harsh and wholly unwarranted penalty upon the defendants.

Even if this Court should hold that the award below is improperly based upon an apportionment of profits, still the actual award made should in any event be sustained as an award of "such damages as to the Court shall appear to be just", "in lieu of actual damages and profits".

The purpose of the "in lieu" provision of Section 25(b) of the Copyright Act of 1909 was the same as that of the 1922 amendment of the Patent Law;

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viz., to confer upon the Court discretionary power in cases where the actual damages or profits to which a plaintiff is entitled are difficult "of calculation and determination with reasonable certainty". Mr. Arthur Steuart, to whom we have already referred (pp. 17, 18 above), at the December, 1906, hearings, said with reference to this identical clause (Section 23(b) of the bill then under consideration):

"The language of the section, 'In lieu of actual damages and profits, such damages as to the court shall appear just,' would appear to put into the court the *absolute right* where it was an equity case to decide what should be allowed in the way of liquidated damages \* \* \*." (Hearing of December 7-11, p. 176.).

This discretion is one to be exercised by the Court. *Westermann Co. v. Dispatch Printing Co.*, 249 U. S. 100, at page 106. The effect of Section 23(b) of the Act is, as the Court there stated, that "the court's conception of what is just in the particular case, considering the nature of the copyright, the circumstances of the infringement, and the like is made the measure of the damages to be paid".

So the Court in *Douglas v. Cunningham*, 294 U. S. 207, at 209, stated that the provision was intended to be applicable "in a case where the rules of law render difficult or impossible proof of damages or discovery of profits". The District Court plainly misconstrued that case when it cited it (R. 1197) for the proposition that the "in lieu" provision is inapplicable where total, unapportioned profits are discoverable. That case did not involve profits at all, but an absence of any showing whatever as to damages. If there is merit in our claim that the plaintiffs are equitably entitled only to a portion of

the profits, then if the Court is unable to make a proper apportionment, it follows that the profits are in fact "difficult or impossible" to discover,—a situation calling for a finding under the "in lieu" provision.

The courts now definitely accept the construction that "Whether profits shall be awarded or statutory damages allowed is not a matter of choice with a plaintiff".\*

In the *Davilla* case the Circuit Court of Appeals held that the plaintiff was entitled to all the profits made by the infringer from the sale of the infringing phonograph records since the defendants had not submitted satisfactory proof of apportionment. These total profits were easily ascertainable, and accordingly the Court held that the award by the District Court of statutory damages greatly in excess of ascertained profits was under the facts of that case a punitive one, not justified under the "in lieu" provision of Section 25(b) of the Copyright Act.

The early cases evidenced some doubt as to the meaning of the phrase "in lieu of actual damages and profits," possibly indicating that the power of the Court to award general damages could only be exercised where the "actual damages and profits" were indeterminate or non-existent. See *Hendricks Co., Inc. v. Thomas Pub. Co.* (C. C. A. 2, 1917), 242 Fed. 37, 42. There is no sound reason why the award cannot also be made where "actual damages and profits" are determinate and existent, for "in lieu of" neces-

\* *Davilla v. Brunswick-Balke-Gallender Co.* (C. C. A. 2, 1938), 94 F. (2d) 567; *Harold Lloyd Corporation v. Witwer* (C. C. A. 9, 1933), 65 F. (2d) 1, 45; *Fargo Mercantile Co. v. Brecht & Richter Co.* (C. C. A. 8, 1924), 295 Fed. 823, 829; *Atlantic Monthly Co. v. Post Pub. Co.* (D. C. Mass., 1928), 27 F. (2d) 556, 560.

sarily means the substitution of something existent for another thing that exists, and is not synonymous with "in the absence of" or "in default of". See *National Sewing Machine Co. v. Wilcox & Gibbs Machine Co.* (C. C. A. 3, 1896), 74 Fed. 557, 560; *Slate v. Escalade*, 150 La. 638; *Lamb v. Milliken*, 78 Colo. 564, 567.

However the words "in lieu of" are to be construed, the courts cannot be precluded from making a just award by either interpretation. If the Court is to award "actual profits", it can only award those profits actually ascribable to the infringement upon the basis of a fair apportionment. If, on the other hand, the Court is unable to determine the "actual profits" properly attributable to the infringement, then it is still authorized "in lieu" thereof to render a just award. In this way the Court will in effect apply what the patent cases have accomplished by the "reasonable royalty" rule, established on equitable principles independent of statute, but later expressed in the 1922 amendment.

In arriving at a just award weight has been given to the price fixed by the parties in their negotiations. (*Schering Pottery Co. v. Steubenville Pottery Co.*, 9 E. Supp. 384, 390.)

## POINT II.

**The bases for apportionment adopted by the Court below are supported by the principles adopted in cases of patent infringement.**

The petitioners' argument under Point II, in which it is claimed "the Court was in complete error even on patent analogy," shows a complete misapprehension or disregard of the principles established in the



patent cases. The *Westinghouse* case (225 U. S. 604) and the numerous other cases to which we have referred involving apportionment of profits show that apportionment is always primarily dependent upon the relative contributions to the commercial success of the infringing venture. Theoretically, the problem is a simple one, if it is reasonable to attribute the entire commercial success of the infringing venture to the infringement; but if, as here, the profits of the infringer ~~were~~ due in part only to the infringement, then there must be an apportionment. It is possible that in many situations it is less difficult to attribute a particular effect to a particular cause where there is a physical separation than where there is a physical blending of two or more possible causes. But in patent cases, the courts have found no difficulty in resolving the question regardless of whether or not the non-infringing elements are blended with the infringing elements.

The *Westinghouse* case contains the latest authoritative discussion on this general question, classifying in this regard the patent cases into the four categories quoted by petitioners on page 27 of their brief. The principles therein stated are based entirely upon factual considerations involving the application of the law of cause and effect. Nowhere does this Court in that case attempt to enter into such refinements as underlie the petitioners' argument.

In *Herman v. Youngstown Car Mfg. Co.* (C. C. A. 6, 1914), 216 F. 604, there was a claim that in order to permit apportionment, the non-infringing elements must be of a "distinct and independent character" from the infringing elements. Judge Denison said, speaking of the *Westinghouse* case:

"We do not find in that case any broad rule that a patentee is entitled to all the profits in

every case where his device is a part of a larger structure and where the fraction of profits attributable to the invention cannot be mathematically demonstrated. The converter invented by Westinghouse was of the class of the folding seat in *Yesbora v. Hardesty*; it was an integer; the invention, through the rule of combination, extended to every part of the whole structure which defendant marketed. *Even in a case of that class, it does not follow, from anything decided, that the apportionment must be precisely accurate; nor that intelligent expert estimate may not furnish all necessary certainty.*"

Judge Denison then made it clear that the relative contributions to the *marketability* of an infringing device are always the criteria in an apportionment of profits. The copyright cases, with the possible exception of *Dan v. Kirk La Shelle Co.*, 175 Fed. 902, have not departed from these principles. In both *Callaghan v. Myers* (128 U. S. 617) and *Belford v. Scribner* (144 U. S. 488) the failure to apportion was based upon the factual finding that the marketability of both infringing works was attributable entirely to the use of the plaintiffs' copyrighted works. In the *Kirk La Shelle* case, the Court proceeded on the false assumption that the entire commercial value of the infringing play was due to the copyrighted story and declined *in advance of an accounting* to permit the infringer to offer any proof to the contrary.

The plaintiffs in their argument under this heading proceed on an assumption, by no means sustainable in the light of the obvious facts, that the infringing motion picture must be deemed in effect an exact pictorial reproduction of the plaintiffs' copyrighted drama. This has been conclusively rebutted not only by the bases of proof submitted by the re-

spondents, but also by both opinions of the Court below. Upon this false assumption, the plaintiffs claim that any allowance made for the contribution of the stars, director, producer, etc., is one made for "labor and materials," the exact cost of which should be allowed only as an expense.

The plaintiffs overlook the fact that the motion picture itself was copyrighted and that as to the original matter contained therein, the copyright was undoubtedly valid and enforceable. That original matter included *as an inherent part of the film itself* the acting and portrayal of Joan Crawford, Robert Montgomery and the other actors, as well as the original creation of the director, the producer, the photographers, etc. The film "Letty Lynton" was their *new artistic creation*. By the uncontradicted evidence, it appears that the drawing power of the picture, that is, its "commercial value as a marketable commodity", was due to the contributions which these numerous artists of the defendants had made to it. The film itself was separate and distinct from the energy, time and labor and creative invention expended in its production. We seek no apportionment based upon the time and money expended in the production, distribution and exhibition of the picture, but one based upon the various elements contributed to the motion picture by the defendants themselves, apart from the literary property of the plaintiffs, which elements constitute the drawing power or commercial value of the film. There is no more justification for calling such elements "labor and materials", as plaintiffs do, than there would be in describing the "Mona Lisa" as "labor and materials".

An adequate distinction between art and labor may be a difficult one to make in that art always results from labor and labor sometimes results in art. The

labor of Joan Crawford at the studio. For example, it did not draw the crowds to the box office, but the result of her labors, indelibly inscribed on the film, was undoubtedly the major reason for the commercial success of the picture with the public. Perhaps as good a distinction as any between art and mere mechanical labor is that art can command a premium with the public. The argument that the contributions made to the picture, "Letty Lynton" by the defendants' stars, director, producer, etc., were mere labor is completely answered by the testimony of the expert witnesses that these contributions brought in more than ninety per cent. of the profits.

The authorities cited by plaintiffs under their Point II are wide of the mark in that they relate solely to labor and materials expended in mere mechanical reproduction and do not extend to matters of artistic or original creation such as are mainly responsible for the profits in the instant case. The *Callaghan* case (128 U. S. 617) is itself typical in this respect, in that there the only copyrightable material in the law reports published by the infringer were the headnotes, arrangements and indices which the infringer had appropriated from the copyrighted work; the entire commercial value of the infringing reports, after the deduction of cost and labor, was attributable to the copyright owner's material. As to the public domain material it was found by the court that a work containing merely the opinions of the court would not have any commercial value. Clearly under such facts, the infringer was not entitled to any apportionment of profits on the basis of labor and materials furnished by him or on any other basis.

As pointed out by Judge McCormick in the *Harold Lloyd Corporation* case (65 F. (2d), at pp. 45, 46), it was not until the passage of the copyright amend-

ment of 1912 that motion pictures and photoplays were specifically made the subjects of copyright legislation. The Townsend Act of 1912 (*supra*, p. 38) amended only Sections 5, 11 and 25 of the Act of 1909, and left undisturbed Section 1 which defined the exclusive rights of the copyright owner in relation to his copyrighted work.

The history of the industry shows that prior to 1912 there existed no so-called "feature" films. Motion pictures prior to that date were limited almost exclusively to one or two reels which represented very limited subjects. The first feature film exhibited in America was that of "Queen Elizabeth", a French film which was presented at the Lyceum Theatre in New York City, in July, 1912 (Ramsaye, *A Million And One Nights*, p. 596). Thus we see that in 1906, when the Copyright Act of 1909 in its essential particulars was framed, there was no such thing in contemplation as the modern feature motion picture.

The case of *Duplate Corporation v. Triplex*, 298 U. S. 448, as well as the other cases cited on pages 33-36 of petitioner's brief, states a principle which is applicable to an infringement of a patent covering a machine or process, where the infringement itself involves merely mechanical reproduction of the patented article. In such case the infringer cannot claim special allowance for any superlative skill exercised in manufacturing the article, or for any degree of efficiency, intelligence, aggressiveness and the like, used in its exploitation and sale. As we have indicated, the factors upon the basis of which the defendants here claim an apportionment, are all inherent in the motion picture and contribute to its "commercial value as a marketable commodity" (*Crosby Valve v. Safety Valve Co.*, 141 U. S. 441, 454). The Court now has made no allowance in the instant



case for the standing and reputation of the defendants in the industry, nor for superior skill or intelligence, nor for "factories and lands, patents and machinery", and the like.

The allowances made to defendants by way of apportionment represent compensation for converting a play, as to only part of which complainants were entitled to copyright protection, into a successful motion picture, and the plaintiffs have had allowed to them by the judgment of the Court below over five times the price for which they would have been glad to sell the motion picture rights to the play, provided sanction of the Hays Office could be obtained. It is conceded that this sanction was not forthcoming.

In the case of *Stearns-Rogers Mfg. Co. v. Ruth*, 87 Fed. (2d) 35, 39 (Petitioners' Brief, p. 27), the Court was not passing on the admissibility of the expert evidence there offered, but merely on the weight or value of such evidence under the facts of that case. There are many typical patent cases in addition to the *Westinghouse* and *Dowagiac* cases where expert testimony similar to that offered in this case has been held to afford a proper basis for apportionment (*supra*, pp. 54-60, 65). Moreover, such testimony was later expressly authorized by the 1922 amendment of Section 76 of the Patent Law.

While the Court below stated that it was aware that the defendants' evidence did not constitute a "real standard" and that the estimates of the experts were only "expressions of very decided opinions", representing "the best opinion of the calling", still the Court felt that any speculative element was entirely removed by making "an award which by no possibility shall be too small" and by taking for such purpose "a figure which will favor the plaintiffs in every reasonable chance of error" (R. 1264-6).



## POINT III.

**The effect of the finding of "deliberate plagiarism" is only to impose on the defendants the duty of showing reasonable bases of apportionment.**

Before explaining the nature of the finding of "deliberate plagiarism", it should be noted that in *Westinghouse v. Wagner*, 225 U. S. 604 (at p. 620), the Court, referring to the privilege extended therein to defendants to show "by general evidence, expert testimony or otherwise" that the patented elements did not "at the utmost" contribute "to more than a given amount of the profits", said that:

*"In such cases, except possibly against one who had concealed or destroyed evidence or been guilty of gross wrong, the plaintiff's recovery cannot exceed the amount thus proved, even though it be impossible otherwise more precisely to apportion the profits."*

There has never been any suggestion by the Master or by either of the Courts below that the defendants have "been guilty of gross wrong".

Under the "History of the Case" (*supra*, pp. 2-4) we have discussed as bearing on the nature and extent of defendants' infringement the purport and effect of Judge Woolsey's decision, which found no infringement and dismissed the complaint and of the first decision of the Court below reversing Judge Woolsey.

Upon the basis of the first opinion of the Court below, the Special Master, in passing on the question of deductibility of Federal income taxes, was of the opinion that the defendants had not been found guilty of wilful and deliberate infringement (R. 1034). So

also Judge Leibell in the District Court (R. 1204), said:

"In the present case the District Judge dismissed the bill and his ruling was reversed by the Circuit Court of Appeals. *The District Judge certainly believed that the issues raised by the defendants had merit.* The Circuit Court of Appeals in its opinion stated that in dismissing the complaint the District Judge was following the Circuit Court's decision in *Nichols v. Universal Pictures Corp.* (*supra*) (45 F. (2d) 119)."

When the case came again before the Circuit Court of Appeals, and this time merely on the appeal from Judge Leibell's decree which sustained with slight modifications the Special Master's report, and without any new evidence on the issue of infringement, one way or the other, Judge Learned Hand stated (R. 1265):

"No new light has come, and we now hold that the borrowing was a deliberate plagiarism."

Where was this "new light" to come from? We have already explained (*supra*, pp. 6, 7), the absence of this "new light".

The Court, in rephrasing its decision as to the nature of defendants' infringement, seems to have departed from the cases which hold that a favorable decision below is of itself sufficient to relieve a defendant from a claim of wanton or wilful infringement. Thus the Court below in a case where interest was refused on profits for a period prior to the filing of the Master's report (*Vandenburgh v. Concrete Steel Co.* (1921), 278 Fed. 607, 610), said:

"There is no evidence of wanton infringement. *The mere fact that the courts held different views as to the claims of the patent is sufficient to negate any such suggestion.*"

The Court below also in a later case (*Stromberg Motor Devices Co. v. Zenith-Detroit Corp.*, 73 F. (2d) 62, 65), relieved a defendant who had deliberately tested a patent, from a charge of wilful infringement, saying:

"It (the defendant) did *deliberately* test this patent. It claimed it to be invalid and denied infringement. The issues raised were not without merit, as is made clear by the fact that it prevailed in the District Court and obtained a decree which we reversed on appeal."

In *Vrooman v. Penhallow* (C. C. A. 6, 1915), 222 Fed. 894, Judge Denison, speaking of a defendant claimed to have been a wilful infringer, said (p. 899): "Baker cannot well be regarded as intending a wilful injury, when the trial court deemed his conduct *rightful*."

We submit that in characterizing the defendants' borrowing as a "deliberate plagiarism" the lower Court did not intend to charge the defendants with *conscious wrongdoing* and in no event with "*gross wrong*". The situation was closely analogous to the *Stromberg Motor Devices Co.* case, *supra*, in that while the defendants here may be said to have acted deliberately, they did so with the honest belief that they were not making an unfair use of the plaintiffs' copyrighted material. Certainly this was the view entertained by District Judge Woolsey, who had the case under consideration for many months. If he felt that the acts done were not in fact violative of the rights of the plaintiffs then under the cases the defendants are not chargeable with conscious wrongdoing. Their mistake must therefore be deemed one of law. For other cases supporting the proposition stated in the *Vandenburgh* and *Stromberg Motor Devices Co.* cases, *supra*, see: *Metallic Rubber Tire Co. v. Hartford*

*Rubber W. Co.* (C. C. A. 2, 1921), 275 Fed. 315, 326; *Philadelphia Rubber Wks. Co. v. U. S. Rubber Reclaiming Wks.* (C. C. A. 2, 1921), 277 Fed. 171, 179; *Rockwood v. General Fire Extinguisher Co.* (C. C. A. 2, 1930), 37 F. (2d) 62, 66.

In no event should the defendants be deemed to have been found "guilty of gross wrong," for obviously the Court below did not regard the defendants as in the class of offenders falling within the exception expressed in the *Westinghouse* case (*supra*, p. 71). The discoveries made by the defendants on the accounting have been full and complete and plaintiffs' counsel have never throughout the case even suggested that any evidence had been concealed, withheld or destroyed.

In *Dowagiac Mfg. Co. v. Minnesota Pion. Co.*, 225 U. S. 641, while the Court in the course of its opinion referred to the infringement as not "wanton or wilful," it should be noted that there it was *plaintiffs*, and not the *defendants*, who had neither apportioned nor attempted to show that apportionment was impossible, "although the evidence upon the accounting went far toward showing that there was no real obstacle to a fair apportionment" (p. 641). In the present case, the defendants have assumed the burden of apportionment and established bases of apportionment satisfactory to the Court below.

As we have already pointed out in relation to *Hamilton-Brown Shoe Co. v. Wolf Bros.*, 240 U. S. 251 (*supra*, pp. 39-41), the defendant's difficulty was that it had not assumed the burden of apportionment, but sought rather to cast that burden upon the plaintiff. The only alternative, therefore, left to the Court was either to award all the profits to the plaintiff, as it did, or to reduce its award merely to nominal damages.

The other cases cited by plaintiffs at page 40 of their brief hold no more than that under similar circumstances where the plaintiff has shown the impossibility of *his* making an apportionment, the *defendant* must bear the burden of apportionment or suffer the consequences.

The great weight of authority now is that even if one is a conscious wrongdoer, he can avoid a forfeiture by reason of a mingling of funds, etc., by offering satisfactory proof upon which the plaintiff's proportionate recovery can be based. *Restatement on Restitution*, Sections 209, 210 (with comments and illustrations) and 214. But be the defendants "unconscious" or "deliberate" infringers, the law requires of them no more than that they shall return to plaintiffs compensation for that which they have taken.

As has already been pointed out in *Sandeman v. Tyzack* (*supra*, p. 39), cases involving confusion usually call for "reasonable adjustments of the rights of the parties." (See other authorities cited, *supra*, pp. 21-23.)

As a conclusion to what we have said in the preceding pages of this brief, we adopt the language of protestation used by Judge Hand in the *Dow, Jones & Co.* case (*supra*, p. 26) and ask why should courts of equity, in deciding as to "the relative contribution of two or more essential factors to a common result," insist "upon an impossible nicety of calculation even at the expense of any justice whatever" because *their processes are disclosed*, when "extreme latitude" is tolerated "to juries in the assessment of damages, because *their processes are not disclosed*"? After all, the infringement is but a simple tort in compensation for which equity uses defendant's profits merely as its "rule of compensation and measure-



ment" instead of plaintiffs' *losses*, as at law. Both cases involve the mere application of the law of cause and effect. A determination of defendant's *gains* in the former case, in the nature of things approaches more closely to certainty than a determination of plaintiffs' *losses* in the latter case.

We respectfully submit that the Court below acted strictly in accordance with true equitable principles in divorcing itself from legalistic dogma, aggravated by mathematical intricacies, which lead only to *vengeance* and *punishment* and not to *compensation* and *justice*. In so doing the Court below recognized and applied that cardinal principle stated by Pomeroy in his Equity Jurisprudence (4th Ed., p. 67):

\*\*\* \* \* *yet the truth stands, and always must stand, that the final object of equity is to do right and justice.*

#### POINT IV.

**The allowance by the Court below of the sum of \$922,141.09, paid to Messrs. Mayer, Rubin and Thalberg, was a proper one.**

The plaintiffs have failed to point out that this item of \$922,141.09 is one of *general studio overhead*, which *in toto* was apportioned among the fifty odd feature pictures (or the equivalent) produced at the Studio during the year in question. Only .018 of this total amount, or the sum of \$16,598.54, was chargeable to the motion picture "Letty Lynton". On the basis of the apportionment allowed by the Circuit Court of Appeals, it served to reduce the judgment entered by one-fifth of such amount, or the sum of \$3,319.71.



This item represented payments actually made during the infringement period by the defendant Metro-Goldwyn Pictures Corporation (for brevity hereinafter called "Pictures Corporation"), under a contract dated April 7, 1924, as modified and extended (Defts' Ex. 33, R. 719, 832-882), to Louis B. Mayer Pictures, a partnership consisting of Messrs. Mayer, Rubin and Thalberg. Under this contract the individuals named were to be paid salaries, and the partnership was to be paid as additional compensation an amount equal to 20% of the profits of the Pictures Corporation. Under their agreement with the Pictures Corporation the individuals undertook "to supervise, manage and generally control the manufacture of all pictures to be produced by Metro Pictures Corporation for a period of three years" (R. 832). This period was thereafter extended to a time beyond the infringement period. For a history of the agreement, see testimony of Rubin (R. 717-723).

This contract provided for the rendition of services by the individuals for a fixed salary and an additional compensation measured by earnings. If they produced pictures that had popular appeal and profits resulted, their total compensation would be in proportion to the success of their labors. If their productions lacked popular appeal and no profits resulted, their compensation would be limited strictly to their salaries.

As the defendant Pictures Corporation was willing to pay this additional compensation, measured by 20% of the "profits", it obviously calculated that the putative 80% which it was to retain would exceed the profits which it could realize without the services of those three individuals. On no other basis would the defendant have paid this percentage compensa-

tion to individuals who never in the aggregate owned more than a 1% stock interest (R. 728), if their services could have been obtained on better terms.

By the contract of February 16, 1927 (R. 861), to which the defendant Loew's Incorporated (for brevity hereinafter called "Loew's") was an additional party, the "profits" of Loew's were substituted as the measure of compensation instead of those of the Pictures Corporation, but when so determined, *the payments were made by the defendant Pictures Corporation* (R. 710-713), *and not by the defendant Loew's.*

The plaintiffs have confused the term "profits" as applied to the enterprise with the term "profits" as applied to the defendant Pictures Corporation. The plaintiffs' only interest is in this defendant's "actual profits," and not in earnings designated as "profits" in a formula used to determine the amount of this important deductible expense. *Stromberg Motor Devices Co. v. Zenith-Detroit Corporation* (C. C. A. 2, 1934), 73 F. (2d) 62, 64. "The infringer is liable for actual, not for possible gains" (*Tilghman v. Proctor*, 125 U. S. 136, 146). Where the defendant has paid out as an *element of cost* any sum, whether called salary or profits, it is entitled to that deduction. It is true that the amount to be paid, is a percentage of the yearly profits of the enterprise, as computed in the first instance; but it is only the profits remaining after this percentage has been deducted which constitute the true and *actual profits* of the defendant, for which it must account.

There is no question that this arrangement long antedated the infringement and that the payments were actually made. The good faith of the payments has not been questioned. The principle applicable

has been properly stated in *Larson v. Wrigley* (C. C. A. 7, 1927), 20 F. (2d) 830, 832, as follows:

*"Where the injured party seeks the profits of an infringer, he takes the chance of their reduction, or even extinguishment, through expenses and losses actually incurred, however unwisely or even improvidently, so long only as they were incurred in good faith."*

Both the District Court and the Master in the instant case seemed to think that the two *Stromberg* cases, the one cited above and *Stromberg Motor Devices Co. v. Detroit Trust Co.* (C. C. A. 3, 1930), 44 F. (2d) 958, 963, did not favor the defendant's position because they considered that in those cases the Courts passed on the wisdom and the providence of those payments as well as their *bona fides*. In the first case (73 F. (2d) 65), the Court simply said:

*"The defendant's contract with its president was made before any question of infringement of the Mock patent arose, and was not an unusual one. The profits the defendant made from the infringement were actually used as a part of the measure of the commission paid to its president in addition to his regular salary. The actual profits to the defendant as a result of the infringement were by so much reduced, and, as the plaintiff is entitled only to those actual profits, the credit was properly allowed."*

Can there be any question, but that in that case there was in a sense a division of profits? The actual profits of the defendant, which alone were subject to plaintiff's claim, consisted of the profits left after that portion of the enterprise profits had been paid out as an operating expense.

In the second *Stromberg* case (44 F. (2d) 963), it was admitted that the payments, though made from profits, were for "remuneration for services". The Court did say that the business was very profitable and that the compensation was "not at all out of reason," but it is clear that the Court spoke only of this as bearing on good faith.

It is clear from the reasoning in both cases that the examinations there made as to the nature of the profit-sharing arrangements had for their only object a determination of the *bona fides* of the arrangements. The Courts were not concerned with the *wisdom* or *providence* of the arrangements. Since in the instant case there can be no reasonable question as to the *bona fides* of the payments in question, the situation falls squarely within the rulings in the two *Stromberg* cases. See also *Macbeth-Evans Glass Co. v. Smith Glass Co.* (C. C. A. 3, 1927), 23 F. (2d) 459, 461.

In *Lee v. Malleable Iron Range Co.* (D. C., E. D. Wis., 1918), 247 F. 795, 798 (R. 984), relied on by the Master, the Court was not called upon to determine whether the agreement was one for personal services or for a division of the profits, for, whatever it was, it pronounced such arrangement to be one without consideration and, therefore, unenforceable (R. 984).

In the present case, there was always the compensation measured by profits as well as the salary compensation. One did not exist without the other. The two were ever present and equally binding on the parties. The additional compensation was not a mere afterthought, for it had been in force since 1924.

The Master in his report erred in examining the contracts with the partnership to see what was regarded in those contracts as *costs or deductible expenses* in arriving at *profits* to be divided (R. 985-6). Naturally in those contracts amounts paid to the partnership measured by *profits* could not be listed as an expense of operation in determining *profits*. A determination of *profits* for the purpose of payment to the partnership would not be based upon a formula providing for such a deduction from earnings. It matters not how in such contracts the term "profits" is defined. The parties for that purpose might have provided for the exclusion of any item of debit or credit usually taken into account according to established bookkeeping methods, as in fact they did when they provided for a deduction from earnings of \$2 per share, regardless of whether paid as a dividend to stockholders (R. 863). The material fact is that this compensation was in fact paid to the partnership from earnings, including earnings from the infringement; that such payment was made in good faith, and that the *actual profits* made by the defendant were not determinable without a deduction from such earnings of this compensation as a proper "element of cost".

The plaintiffs (Brief, p. 43), criticize the Court below for its statement that: "The payments were never profits of the defendants at all; the contracts effectively laid hold of them the moment they came into existence" (R. 1266). They assert that the profits were equitably the property of plaintiffs' irrespective of any contract under which the defendant may have become obligated to pay over part of them to some one else. They entirely overlook the fact that profits as such are never awarded to the plaintiff but are used merely as the measure of liability in equity.



of the defendant as a simple tortfeasor. There is no authority for enforcing anything in the nature of an equitable trust against the profits themselves. On the plaintiffs' theory it might be argued that the defendants were not entitled to pay their ordinary running expenses, including salaries and the like, from the proceeds of the exploitation of the picture "Letty Lynton". Although the formula of the contract may have designated the net earnings of the defendant, before payment of this amount to the partnership, as *profits*, it is clear that such net earnings did not constitute *profits* within the meaning of the Copyright Law until after the sums payable to the partnership had been deducted.

We, therefore, submit that the lower Court correctly allowed the credit.

### CONCLUSION.

*It is therefore respectfully submitted that the decision of the Circuit Court of Appeals for the Second Circuit should be affirmed.*

Respectfully submitted,

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## APPENDIX.

### Constitution and Statutes Involved.

The Constitution of the United States (Article 1, Section 8, Clause 8) gives to Congress the power:

"8. To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The pertinent portions of the Copyright Law (Tit. 17, U. S. C. A.) are:

"Section 25. *Infringement.* If any person shall infringe the copyright in any work protected under the copyright laws of the United States, such person shall be liable:

(j). *Damages and profits; amount; other remedies.* (b) To pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such infringement, \* \* \* or in lieu of actual damages and profits such damages as to the court shall appear to be just, \* \* \*"

The pertinent portions of the Patent Law (Tit. 35, U. S. C. A.) are:

"Section 70. \* \* \* and upon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction. \* If on the

\* All matter which follows asterisk comprises the so-called 1922 Amendment (Act of Feb. 18, 1922).

proofs it shall appear that the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement."

pp 9 + 10

# SUPREME COURT OF THE UNITED STATES.

No. 482.—OCTOBER TERM, 1939.

Edward Sheldon and Margaret Ayer  
Barnes, Petitioners,  
vs.  
Metro-Goldwyn Pictures Corporation,  
Metro-Goldwyn-Mayer Distributing  
Corporation, et al.

On Writ of Certiorari to  
the United States Cir-  
cuit Court of Appeals  
for the Second Circuit.

[March 25, 1940.]

Mr. Chief Justice HUGHES delivered the opinion of the Court.

The questions presented are whether, in computing an award of profits against an infringer of a copyright, there may be an apportionment so as to give to the owner of the copyright only that part of the profits found to be attributable to the use of the copyrighted material as distinguished from what the infringer himself has supplied, and, if so, whether the evidence affords a proper basis for the apportionment decreed in this case.

Petitioners' complaint charged infringement of their play "Dishonored Lady" by respondents' motion picture "Letty Lynton", and sought an injunction and an accounting of profits. The Circuit Court of Appeals, reversing the District Court, found and enjoined the infringement and directed an accounting. 81 F. (2d) 49. Thereupon the District Court confirmed with slight modifications the report of a special master which awarded to petitioners all the net profits made by respondents from their exhibitions of the motion picture, amounting to \$587,604.37. 26 F. Supp. 134, 136. The Circuit Court of Appeals reversed, holding that there should be an apportionment and fixing petitioners' share of the net profits at one-fifth. 106 F. (2d) 45, 51. In view of the importance of the question, which appears to be one of first impression in the application of the copyright law, we granted certiorari. December 4, 1939.

Petitioners' play "Dishonored Lady" was based upon the trial in Scotland, in 1857, of Madeleine Smith for the murder of her

lover,—a *cause célèbre* included in the series of "Notable British Trials" which was published in 1927. The play was copyrighted as an unpublished work in 1930, and was produced here and abroad. Respondents took the title of their motion picture "Letty Lynton" from a novel of that name written by an English author, Mrs. Belloc Lowndes; and published in 1930. That novel was also based upon the story of Madeleine Smith and the motion picture rights were bought by respondents. There had been negotiations for the motion picture rights in petitioners' play, and the price had been fixed at \$30,000, but these negotiations fell through.

As the Court of Appeals found, respondents in producing the motion picture in question worked over old material; "the general skeleton was already in the public *démense*. A wanton girl kills her lover to free herself for a better match; she is brought to trial for the murder and escapes". But not content with the mere use of that basic plot, respondents resorted to petitioners' copyrighted play. They were not innocent offenders. From comparison and analysis, the Court of Appeals concluded that they had "deliberately lifted the play"; their "borrowing was a deliberate plagiarism". It is from that standpoint that we approach the questions now raised.

Respondents contend that the material taken by infringement contributed in but a small measure to the production and success of the motion picture. They say that they themselves contributed the main factors in producing the large net profits; that is, the popular actors, the scenery, and the expert producers and directors. Both courts below have sustained this contention.

The District Court thought it "punitive and unjust" to award all the net profits to petitioners. The court said that, if that were done, petitioners would receive the profits that the "motion picture stars" had made for the picture "by their dramatic talent and the drawing power of their reputations". "The directors who supervised the production of the picture and the experts who filmed it also contributed in piling up these tremendous net profits". The court thought an allowance to petitioners of 25 per cent. of these profits "could be justly fixed as a limit beyond which complainants would be receiving profits in no way attributable to the use of their play in the production of the picture". But, though holding these views, the District Court awarded all the net profits to petitioners, feeling bound by the decision of the Court of Appeals in *Dam v. Kirk La*

*Shelle Co.*, 175 Fed. 902, 903, a decision which the Court of Appeals has now overruled.

The Court of Appeals was satisfied that but a small part of the net profits was attributable to the infringement, and, fully recognizing the difficulty in finding a satisfactory standard, the court decided that there should be an apportionment and that it could fairly be made. The court was resolved "to avoid the one certainly unjust course of giving the plaintiffs everything, because the defendants cannot with certainty compute their own share". The court would not deny "the one fact that stands undoubted", and, making the best estimate it could, it fixed petitioners' share at one-fifth of the net profits, considering that to be a figure "which will favor the plaintiffs in every reasonable chance of error".

*First.*—Petitioners insist fundamentally that there can be no apportionment of profits in a suit for a copyright infringement; that it is forbidden both by the statute and the decisions of this Court. We find this basic argument to be untenable.

The Copyright Act in Section 25(b)<sup>1</sup> provides that an infringer shall be liable—

"(b) To pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such infringement, or in lieu of actual damages and profits, such damages as to the court shall appear to be just, . . . ."

We agree with petitioners that the "in lieu" clause is not applicable here, as the profits have been proved and the only question is as to their apportionment.

Petitioners stress the provision for recovery of "all" the profits, but this is plainly qualified by the words "which the infringer shall have made from such infringement". This provision in purpose is cognate to that for the recovery of "such damages as the copyright proprietor may have suffered due to the infringement". The purpose is thus to provide just compensation for the wrong, not to impose a penalty by giving to the copyright proprietor profits which are not attributable to the infringement.

Prior to the Copyright Act of 1909, there had been no statutory provision for the recovery of profits, but that recovery had been

<sup>1</sup> Act of March 4, 1909, sec. 25, 35 Stat. 1081, as amended by Act of August 24, 1912, 37 Stat. 489. 17 U. S. C., sec. 25(b).

allowed in equity both in copyright and patent cases as appropriate equitable relief incident to a decree for an injunction. *Stevens v. Gladding*, 17 How. 447, 455. That relief had been given in accordance with the principles governing equity jurisdiction, not to inflict punishment but to prevent an unjust enrichment by allowing injured complainants to claim "that which, *ex aequo et bono*, is theirs, and nothing beyond this". *Livingston v. Woodworth*, 15 How. 546, 560. See *Root v. Railway Company*, 105 U. S. 189, 194, 195. Statutory provision for the recovery of profits in patent cases was enacted in 1870.<sup>2</sup> The principle which was applied both prior to this statute and later was thus stated in the leading case of *Tilghman v. Proctor*, 125 U. S. 136, 146:

"The infringer is liable for actual, not for possible gains. The profits, therefore, which he must account for, are not those which he might reasonably have made, but those which he did make, by the use of the plaintiff's invention; or, in other words, the fruits of the advantage which he derived from the use of that invention, over what he would have had in using other means then open to the public and adequate to enable him to obtain an equally beneficial result. If there was no such advantage in his use of the plaintiff's invention, there can be no decree for profits, and the plaintiff's only remedy is by an action at law for damages."

In passing the Copyright Act, the apparent intention of Congress was to assimilate the remedy with respect to the recovery of profits to that already recognized in patent cases. Not only is there no suggestion that Congress intended that the award of profits should be governed by a different principle in copyright cases but the contrary is clearly indicated by the committee reports on the bill. As to section 25(b) the House Committee said:<sup>3</sup>

"Section 25 deals with the matter of civil remedies for infringement of a copyright. The provision that the copyright proprietor may have such damages as well as the profits which the infringer shall have made is substantially the same provision found in section 4921 of the Revised Statutes relating to remedies for the infringement of patents. The courts have usually construed that to mean that the owner of the patent might have one or the other, whichever was the greater. As such a provision was found both in the trade-mark and patent laws, the committee felt that it might be properly included in the copyright laws."

<sup>2</sup> Act of July 8, 1870, sec. 55, 16 Stat. 198, 206; R. S. 4921.

<sup>3</sup> House Report No. 2222, 60th Cong., 2d sess., p. 15. See, also, Senate Report No. 1108, 60th Cong., 2d sess., p. 15.



We shall presently consider the doctrine which has been established upon equitable principles with respect to the apportionment of profits in cases of patent infringement. We now observe that there is nothing in the Copyright Act which precludes the application of a similar doctrine based upon the same equitable principles in cases of copyright infringement.

Nor do the decisions of this Court preclude that course. Petitioners invoke the cases of *Callaghan v. Myers*, 128 U. S. 617, and *Belford v. Scribner*, 144 U. S. 488. In the *Callaghan* case, the copyright of a reporter of judicial decisions was sustained with respect to the portions of the books of which he was the author, although he had no exclusive right in the judicial opinions. On an accounting for the profits made by an infringer, the Court allowed the deduction from the selling price of the actual and legitimate manufacturing cost. With reference to the published matter to which the copyright did not extend, the Court found it impossible to separate the profits on that from the profits on the other. And in view of that impossibility, the defendant, being responsible for the blending of the lawful with the unlawful, had to abide the consequences, as in the case of one who has wholly produced a confusion of goods. A similar impossibility was encountered in *Belford v. Scribner*, a case of a copyright of a book containing recipes for the household. The infringing books were largely compilations of these recipes, "the matter and language" being "the same as the complainant's in every substantial sense", but so distributed through the defendants' books that it was "almost impossible to separate the one from the other". The Court ruled that when the copyrighted portions are so intermingled with the rest of the piratical work "that they cannot well be distinguished from it", the entire profits realized by the defendants will be given to the plaintiff.

We agree with the court below that these cases do not decide that no apportionment of profits can be had where it is clear that all the profits are not due to the use of the copyrighted material, and the evidence is sufficient to provide a fair basis of division so as to give to the copyright proprietor all the profits that can be deemed to have resulted from the use of what belonged to him. Both the Copyright Act and our decisions leave the matter to the appropriate exercise of the equity jurisdiction upon an accounting to determine

the profits "which the infringer shall have made from such infringement".

*Second.*—The analogy found in cases of patent infringement is persuasive. There are many cases in which the plaintiff's patent covers only a part of a machine and creates only a part of the profits. The patented invention may have been used in combination with additions or valuable improvements made by the infringer and each may have contributed to the profits. In *Elizabeth v. Pavement Company*, 97 U. S. 126, 142, cited in the *Callaghan and Belford* cases, *supra*, it had been recognized that if a separation of distinct profit derived from such additions or improvements was shown, an apportionment might be had. See *Garretson v. Clark*, 111 U. S. 120, 121. The subject was elaborately discussed in the case of *Westinghouse Company v. Wagner Company*, 225 U. S. 604, where it was distinctly ruled that "if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains". There, the Court was concerned with the question of burden of proof. It was said that the plaintiff suing for profits was under the burden of showing that they had been made. The defendant had submitted evidence tending to show that it had added non-infringing and valuable improvements which had contributed to the making of profits; and the plaintiff in reply had insisted that these additions had made no such contribution. But assuming, as had been found, that the additions were non-infringing and valuable improvements, and a *prima facie* case of contribution to profits thus appearing, the burden of apportionment would rest upon the plaintiff. But in that relation it had still to be considered that the act of the defendant had made it "not merely difficult but impossible to carry the burden of apportionment" and in such case, as the "inseparable profit must be given to the patentee or infringer", the law placed the loss on the wrongdoer.

The question of burden of proof does not arise in the instant case, as here the defendants voluntarily assumed that burden and the court below has held that it has been sustained. What is apposite, however, is the ruling in the *Westinghouse* case as to apportionment and the sort of evidence admissible upon that question. The Court pointed to the difficulties of working out an account of profits and thought that the problem was analogous to that presented where it is necessary to separate interstate from intrastate earnings and expenses in order to determine whether an intrastate

rate is confiscatory. The Court observed that "while recognizing the impossibility of reaching a conclusion that is mathematically exact", there has been received, in addition to other relevant evidence, "the testimony of experts as to the relative cost of doing a local and through business". *Chicago, M. & St. P. R. Co. v. Tompkins*, 176 U. S. 167, 178. The Court thought that "What is permissible in an effort to separate costs may also be done in a patent case where it is necessary to separate profits".

The principle as to apportionment of profits was clearly stated in the case of *Dowagiac Company v. Minnesota Company*, 235 U. S. 641,—a case which received great consideration. The Court there said:

"We think the evidence, although showing that the invention was meritorious and materially contributed to the value of the infringing drills as marketable machines, made it clear that their value was not entirely attributable to the invention, but was due in a substantial degree to the unpatented parts or features. The masters and the courts below so found and we should hesitate to disturb their concurring conclusions upon this question of fact even had the evidence been less clear than it was.

"In so far as the profits from the infringing sales were attributable to the patented improvements they belonged to the plaintiff, and in so far as they were due to other parts or features they belonged to the defendants. But as the drills were sold in completed and operative form the profits resulting from the several parts were necessarily commingled. It was essential therefore that they be separated or apportioned between what was covered by the patent and what was not covered by it, for, as was said in *Westinghouse Co. v. Wagner Co.*, *supra* (229 U. S. 615): 'In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains'". *Id.*, 646.

In the *Dowagiac* case, we again referred to the difficulty of making an exact apportionment and again observed that mathematical exactness was not possible. What was required was only "reasonable approximation" which usually may be attained "through the testimony of experts and persons informed by observation and experience". Testimony of this character was said to be "generally helpful and at times indispensable in the solution of such problems". The result to be accomplished "is a rational separation of the net profits so that neither party may have what rightfully belongs to the other". *Id.*, p. 647.

We see no reason why these principles should not be applied in copyright cases. Petitioners cite our decision in the trade-mark case of *Hamilton Shoe Company v. Wolf Brothers*, 240 U. S. 251, but the Court there, recognizing the rulings in the *Westinghouse* and *Dowagiac* cases, found on the facts that an apportionment of profits was "inherently impossible". The burden cast upon the defendant had not been sustained.

In 1922, some years after the *Dowagiac* decision, and in harmony with it, Congress amended Section 70 of the patent law<sup>4</sup> so as to provide expressly that "damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony". The amendment, so far as it relates to the reception of expert testimony, recognized and cannot be deemed to enlarge the rules already applied in courts of equity, and the fact that the copyright law was not similarly amended cannot be considered to detract from the jurisdiction of the Court to receive similar evidence in copyright cases whenever it is found to be competent.

Petitioners stress the point that respondents have been found guilty of deliberate plagiarism, but we perceive no ground for saying that in awarding profits to the copyright proprietor as a means of compensation, the court may make an award of profits which have been shown not to be due to the infringement. That would be not to do equity but to inflict an unauthorized penalty. To call the infringer a trustee *ex maleficio* merely indicates "a mode of approach and an imperfect analogy by which the wrongdoer will be made to hand over the proceeds of his wrong". *Larson Company v. Wrigley Company*, 277 U. S. 97, 99, 100. He is in the position of one who has confused his own gains with those which belong to another. *Westinghouse Company v. Wagner Company*, *supra*, p. 618. He "must yield the gains begotten of his wrong". *Duplate Corporation v. Triplex Company*, 298 U. S. 448, 457. Where there is a commingling of gains, he must abide the consequences, unless he can make a separation of the profits so as to

<sup>4</sup> Act of February 18, 1922, Sec. 8, 42 Stat. 392, amending R. S. 4921. 35 U. S. C. 70.

assure to the injured party all that justly belongs to him. When such an apportionment has been fairly made, the copyright proprietor receives all the profits which have been gained through the use of the infringing material and that is all that the statute authorizes and equity sanctions.

Both courts below have held in this case that but a small part of the profits were due to the infringement, and, accepting that fact and the principle that an apportionment may be had, if the evidence justifies it, we pass to the consideration of the basis of the actual apportionment which has been allowed.

*Third.*—The controlling fact in the determination of the apportionment was that the profits had been derived, not from the mere performance of a copyrighted play, but from the exhibition of a motion picture which had its distinctive profit-making features, apart from the use of any infringing material, by reason of the expert and creative operations involved in its production and direction. In that aspect the case has a certain resemblance to that of a patent infringement, where the infringer has created profits by the addition of non-infringing and valuable improvements. And, in this instance, it plainly appeared that what respondents had contributed accounted for by far the larger part of their gains.

*Petitioners* had stressed the fact that, although the negotiations had not ripened into a purchase, the price which had been set for the motion picture rights in "Dishonored Lady" had been but \$30,000. And *petitioners'* witnesses cited numerous instances where the value, according to sales, of motion picture rights had been put at relatively small sums. But the court below rejected as a criterion the price put upon the motion picture rights, as a bargain had not been concluded and the inferences were too doubtful. The court also ruled that respondents could not count the effect of their standing and reputation in the industry. The court permitted respondents to be credited "only with such factors as they bought and paid for; the actors, the scenery, the producers, the directors and the general overhead".

The testimony showed quite clearly that in the creation of profits from the exhibition of a motion picture, the talent and popularity of the "motion picture stars" generally constitutes the main drawing power of the picture, and that this is especially true where the title of the picture is not identified with any well-known play or novel.



Here, it appeared that the picture did not bear the title of the copyrighted play and that it was not presented or advertised as having any connection whatever with the play. It was also shown that the picture had been "sold", that is, licensed to almost all the exhibitors as identified simply with the name of a popular motion picture actress before even the title "~~Lady~~ Lynton" was used. In addition to the drawing power of the "motion picture stars", other factors in creating the profits were found in the artistic conceptions and in the expert supervision and direction of the various processes which made possible the composite result with its attractiveness to the public.

Upon these various considerations, with elaboration of detail, ~~petitioners'~~ expert witnesses gave their views as to the extent to which the use of the copyrighted material had contributed to the profits in question. The underlying facts as to the factors in successful production and exhibition of motion pictures were abundantly proved, but, as the court below recognized, the ultimate estimates of the expert witnesses were only the expression "of their very decided opinions". These witnesses were in complete agreement that the portion of the profits attributable to the use of the copyrighted play in the circumstances here disclosed was very small. Their estimates given in percentages of receipts ran from five to twelve per cent; the estimate apparently most favored was ten per cent as the limit. One finally expressed the view that the play contributed nothing. There was no rebuttal. But the court below was not willing to accept the experts' testimony "at its face value". The court felt that it must make an award "which by no possibility shall be too small". Desiring to give petitioners the benefit of every doubt, the court allowed for the contribution of the play twenty per cent. of the net profits.

Petitioners are not in a position to complain that the amount thus allowed by the court was greater than the expert evidence warranted. Nor is there any basis for attack, and we do not understand that any attack is made, upon the qualifications of the experts. By virtue of an extensive experience, they had an intimate knowledge of all pertinent facts relating to the production and exhibition of motion pictures. Nor can we say that the testimony afforded no basis for a finding. What we said in the *Dowagiac*



case is equally true here,—that what is required is not mathematical exactness but only a reasonable approximation. That, after all, is a matter of judgment and the testimony of those who are informed by observation and experience may be not only helpful but, as we have said, may be indispensable. Equity is concerned with making a fair apportionment so that neither party will have what justly belongs to the other. Confronted with the manifest injustice of giving to petitioners all the profits made by the motion picture, the court in making an apportionment was entitled to avail itself of the experience of those best qualified to form a judgment in the particular field of inquiry and come to its conclusion aided by their testimony. We see no greater difficulty in the admission and use of expert testimony in such a case than in the countless cases involving values of property rights in which such testimony often forms the sole basis for decision.

Petitioners also complain of deductions allowed in the computation of the net profits. These contentions involve questions of fact which have been determined below upon the evidence and we find no ground for disturbing the court's conclusions.

The judgment of the Circuit Court of Appeals is affirmed.

*Affirmed.*

Mr. Justice McREYNOLDS took no part in the decision of this case.

A true copy.

Test:

*Clerk, Supreme Court, U. S.*

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